



## MURRAY CITY MUNICIPAL COUNCIL COMMITTEE OF THE WHOLE

The Murray City Municipal Council met as a Committee of the Whole on Tuesday, October 2, 2012, in the Murray City Center, Conference Room #107, 5025 South State Street, Murray Utah.

### Members in Attendance:

Jim Brass	Council Chair
Dave Nicponski	Council Member
Darren V. Stam	Council Member
Jared A. Shaver	Council Vice Chair
Brett A. Hales	Council Member

### Others in Attendance:

Dan Snarr	Mayor	Briant Farnsworth	Attorney's Office
Janet M. Lopez	Council Administrator	Jan Wells	Mayor's Chief of Staff
Frank Nakamura	City Attorney	Jim Hewlett	IPA
Dan Eldredge	IPA	John Prestwich	Citizen
Jennifer Kennedy	City Recorder	Zach Fountain	Mayor's Office
Justin Zollinger	Finance Director	George Katz	Citizen
Sally Hoffelmeyer-Katz	Citizen	Jennifer Brass	Citizen
Greg Bellon	Power	Blaine Haacke	General Manager Power
Charles Crutcher	Power	Bruce Turner	Power
Dallas DiFrancesco	Power Advisory Board	Steve Meyer	Power Advisory Board
Natalie Gochmour	Power Advisory Board	Dianne Taylor	Power Department
Raj Dhaliwal	Citizen	Dirt Sudweeks	UTOPIA
Candace Vigil	UTOPIA		

Chairman Brass called the Committee of the Whole meeting to order at 5:17 p.m. and welcomed those in attendance.

### Minutes

Mr. Brass asked for corrections or action on the minutes from the Council Initiative Workshop held on September 4, 2012. Mr. Hales moved approval. Mr. Shaver seconded and the motion passed 5-0. Mr. Stam moved approval of the minutes from the Committee of the Whole meeting held on September 4, 2012. Mr. Hales seconded and the motion was approved 5-0.

**Business Item #1:**                      **Intermountain Power Association Repowering Issue –  
Blaine Haacke and Jim Hewlett**

Mr. Haacke announced that there are serious issues with the Intermountain Power Association (IPA) plant, which is the coal fired plant in Delta, Utah. The issue is very complex and had been under discussion for a couple of years. Murray City has 4% ownership in the plant with about 72 megawatts (mW), which is a huge portion. Murray peaks at 100 mW, so we could almost utilize the entire allocation during peak season. Murray has had a good relationship with California entities that have been able to take the energy the City did not need. If we did want it, the City could call back what was needed here. Because of California legislative issues together we will need to decide on the future of that plant after the year 2027. Fifteen years is not that long if it is decided to build another power plant and walk away from IPA.

Mr. Haacke had asked Jim Hewlett, General Manager of IPA, and Dan Eldredge, Assistant General Manager, to come and speak to this matter. They office in South Jordan and oversee and operate IPA, the railroad lines and mining concerns, which involves the huge conglomerate of the business. Mr. Hewlett made a presentation to the Utah Associated Municipal Power System (UAMPS) members, some of whom will have to come on board with the changes, as well. Mr. Farnsworth of the Murray City Attorney's Office had been working with Mr. Haacke on this problem over the past 18 months.

Mr. Hewlett intended to give an overview of the IPA project stating that it is difficult to understand everything going on. That is the reason for the specialists who have been paying attention to all the details. It is a \$5.5 billion project in Millard County and Murray is the largest Utah municipal participant in the project. As a heavy hitter IPA counts on Murray and is pleased that Blaine Haacke serves on the Board.

The IPA efforts began about three years prior due to changes in California law. The six largest municipal entities located in southern California can no longer utilize coal fired energy beyond 2027. That leaves the plant with two 950 mW coal units to try and figure out what to do with. Presented with that issue Mr. Hewlett brought the operating agent into Utah to discuss the matter. They are the Los Angeles Department of Water and Power (LADWP). They are the single largest purchaser. He asked them who the participants in the IPA project would be past 2027 and he asked to know by 2015. At this time we are ahead of that particular curve and it takes this much time due to the huge ship to turn. When you talk about resource plans it is important to be visionary and look far down the road. A city like Murray needs to know what its energy plan will be for the entire load and with the 1800 mW of IPA it takes a lot of forward thinking and planning. When it comes right down to it, IPA does not want the California entities to walk away from the project. Utah benefits in large measure from their participation because from the outset this project was designed to be a taxable entity. It is very unusual for a municipal organized entity, such as IPA, to have taxable purchasers, even though they are municipalities. There is an exemption for Murray when they call back power. From inception over half a billion dollars of tax benefit had been paid into the state and local coffers from operating IPP (Intermountain Power Project). We believe this has been a significant benefit to the State of Utah and the only way to continue it is to try to plan now on where the plant wants to be. Several meetings have been held with the purchasers and generation sub-committee meetings have taken place to the credit of Mr. Farnsworth and Mr. Haacke over the last 18 months. Everyone has had the opportunity to talk about the resource plans and what they see for IPP.

The background paper supplied by Mr. Haacke was very good. The concerns expressed by him and the contractual issues presented by Mr. Farnsworth would not be directly spoken to

during this presentation. A particular dynamic set up on this project allows Mr. Farnsworth to call the IPP lawyer to talk about legal language. The questions are good and if there is time we can address those individually, Mr. Hewlett stated.

He explained that there are two central considerations for the Utah municipal members. First are the changes to the current agreements that have been in place since inception. These agreements have changed four times and this will not be the last time the organization agreements will be changed. It includes how the plant was formulated, what IPP is about, how business is done and how they govern themselves. Then there are some amendments to the current power sales contract. This is tantamount to a constitutional amendment. It requires 100% buy in, not a majority vote, not an 80/20 vote that is in the current power sales contract. The other considerations are renewal agreement decisions. Every purchaser in this project will be confronted with renewal decisions.

Mr. Hewlett noted that he would focus on the changes to the current power sales contract first and then the renewal decisions that would come a little later because Murray would have to deal with both of those issues.

There are three simple changes to the organization agreement that the management is asking the Utah municipalities to approve. Needed are two thirds of the 23 municipalities for ratification and to make them binding.

- Term to be extended to 2077 to coincide with the renewal effort. The current life is to 2044.
- Fuel is currently hard wired into burning coal. The change would be to permit another fuel, probably gas, if approved by the Board of Directors. It provides the project more flexibility in this day and age when the Environmental Protection Agency has more and more say on business plans for projects such as IPP.
- Powers come from the legal side to clarify the actions undertaken to go to a gas fuel generation facility.

These changes are conducive to allowing a change to the business plan and they conform to what the plant is trying to do as far as renewal rates.

Changes to the power sales contract involve three major areas:

- Provides for gas repowering from hard wired coal;
- Provides for retirement costs and actions;
- Provides for contingency.

Mr. Hewlett continued to explain the areas mentioned above. The gas repowering changes must define something. In order to approve a contract for new generation the California purchasers must go to the California Energy Commission. This is a new requirement for the municipal entities. We have determined that the description at IPP would be a 600 mW per unit combined cycle gas fired plant. We are saying that the gas repowering: construction, design, permitting and all those activities associated with the repowering would commence in 2020 and be completed by 2025. One issue is the contract under current obligation for units one and two go until 2027. There is some overlap here because when large units like that are built there can be delays due to permitting glitches, construction lead time on significant materials and those types of things. The management would like plenty of time for testing the units so that it all

works when the coal units begin to go down and when the gas ramps up to replace that amount of energy.

Mr. Shaver asked if the repowering refers to recreating or rebuilding. Mr. Hewlett responded that new gas would be built and they simply refer to it as repowering since they are going from coal fired to gas fired. This is the language that was used in Senate Bill 94 during the last legislative session, which allowed IPP to repower under the Electric Power Facilities Act. It is a new project but the same purchasers are being asked to renew and repowering is the term of origin that allows them to get there.

Mr. Brass confirmed that there would be two new turbine units. Mr. Hewlett added that there are some options in the contract that allow them to retain the facilities at IPP including the two units. The air quality permits have been obtained, as well. He has asked some Nevada entities if they would like some coal fired energy post 2027. They answer that they are long on gas and short on coal and would love to have some; although, they do not feel that they can make a commitment at this time.

Another caveat gives a degree of flexibility and that is if there are other technologies that help comply with the legal requirements coming out of California, they may be able to keep the coal units operating. There may be other types of generation that the management wants to develop on site that will augment the generation effort, which they will do if it is possible.

Mayor Snarr asked if geothermal could be developed at the site. Mr. Hewlett said that the transmission is there and it is a possibility. The transmission is one thing keeping California in the game because there is a lot of pressure from City Councils on those enterprise funds not to invest any more money in Utah. They would like to keep the construction and operating jobs in their state. The utility managers' answer points out the investment and amortization of all the debt in IPP. They want to keep utilizing it in their markets.

Another thing being contemplated in these agreements is creating a fund to pay for the retirement costs associated with the plant, both in dismantling and environmental requirements and costs. Now there is no ability to bill the purchasers for that under the current contracts. This would provide a mechanism to do that.

Mr. Nicponski asked if they have assurances and documentation from LADWP and other providers to fund the retirement costs, as well. Mr. Hewlett replied that he did. It is built in and if they sign it they know they have an obligation and realize they have enjoyed the fruits from it for so many years; they understand it is a responsibility they cannot escape.

Mayor Snarr asked if a totally new physical structure would be added to house the new gas turbines. The current structure would then be available for some other use. The future market is guaranteeing the costs on the new units, Mr. Nicponski confirmed.

The next item in the power sales contract would be a contingency in the event they get out to 2020 and have no gas repowering. The option to renew does not provide an obligation to renew. When 2020 arrives those entities that have signed up for renewal make the decisions on the size and configuration of the units or they don't repower. What that means is that for the next transmission consideration the renewal would extend the contract five years beyond 2027 to accommodate the dismantling costs at the time: taking the units down to ground level and other things such as coal ash, sludge and condition to take care of. It is unknown what the EPA obligation may be at that time. This will provide a way for the Californians to do that over the five

year period following the end of the plant. It is just a contingency or a fall-back plan if repowering is not determined by the purchasers.

The Southern Transmission System (STS) is the line that conveys nearly all the power generated from IPP to southern California including two converter stations. In order to get the energy from these ancillary products to the STS line they would want 60% of the Northern Transmission System. The 60/40 split would still cover the Utah municipals capacity demands in IPP. The management did not feel this was a hindrance because there is still a lot of room for growth.

Mr. Shaver mentioned that IPP is not just a power plant; there is railroad, trains and everything. The repowering is not just the turbines it is finding the sources and getting the gas to the plant. He asked if all that build out is considered in the contracts. Mr. Hewlett said the lines are very close. The closest point is Kern River, about 40 miles. To backup and access both Kern and Questar, which would be preferable for the competition and to diversify suppliers, would be about 60 miles away. A proforma has been done in today's dollars, not knowing the configuration of the plant and it is about one billion dollars.

Mr. Shaver asked if it is something the plant would own and tap into theirs, rather than having them come to the plant. Mr. Hewlett said that was correct and the pipe would be sized according to what would be done. That development cost could possibly be shared with Magnum Gas. Again, that is way down the road.

Mayor Snarr asked what would happen if natural gas went to \$30 per dekatherm and California decided to take the economy down based on this amount of renewable in the portfolio. Would they have an option in 2020 to rethink the facility before construction begins? Mr. Hewlett said everyone will have that option.

Mr. Hewlett said that he had a conversation with Governor Herbert and senior staff from Los Angeles to talk about all this and the Governor said he did not care what California was paying for energy. He said the more they pay then the more businesses leave California and come to Utah to do business.

Mr. Brass commented that it is one question as to what California's threshold of pain is per kilowatt hour. That will determine how strongly they abide by the "no coal" regulations. If they hit 30 cents per kilowatt hour there will be moaning. Mr. Hewlett said they do have rate increase pain now, and the rate czar has come between the city councils and the utilities to keep peace. That will become more apparent. They want to stay in IPP because to their benefit we make the least cost power possible.

The changes to the organization agreement:

- Enables the purchasers flexibility and options, which they currently do not have;
- Enables the renewal of IPP;
- Does not commit the purchasers to renewal, it is a separate decision;
- Clarifies cost responsibility for retirement costs.

The significant goals and benefits include:

- Keeping the resources and workforce at IPP viable through 2077 (485 people);
- Sustains the economic contribution to the State of Utah;

- Extends and expands the tax payments;
- Provides construction jobs, in 2020 new assets of about a billion dollars;
- Provides a no cost option to Utah municipalities for energy in the renewal project through excess power sales to California.

Mr. Brass said that currently Murray can callback as much power as needed and with six months notice it can be laid off. Under the new agreement if it is called back then the City owns it and would have to be very careful with that decision. Murray has other resources that far exceed the city's sales peak. Mr. Haacke said it would be a last resort to call it back. We would still have to pay for it if we came out long on energy, Mr. Brass explained.

Mr. Hewlett concluded stating the in the late 1970s Murray City was one of the municipalities that considered these same issues: should they join up with California purchasers and build to economies of scale a very large power generating facility in the State of Utah. There were a lot of risks and Murray was locked in for fifty years and it has been a very good investment. It was built in the 1980s and the entire infrastructure has been fully developed and we know the capabilities. It is a hub, a market place and an outlet for southern California as a market for fuel generation. It was a good decision for Murray. We have tried to parallel the current contracts in the renewal power sales contracts. Murray has another decision: will the City go another 50 years with IPP? There is power on the shelf to recall. A different risk profile exists today. The management would love to have Murray renew its commitment in IPP.

The timing is to get the two contracts approved by the end of 2012. That is the amended organizational agreement and the amended power sales contract. He feels these just better Murray's position. IPP wants to make sure that Murray has every piece of information it needs to make a fully informed decision that it can have confidence in, as it will be left to our successors down the road.

The other decision requiring much thought and time will be in the spring of 2013 when IPA will send out an offer sheet on participation in the renewal. At this point Murray may decide if it wants 4% or something less. The plant is being sized down with less generation than today; although it will be gas with the renewable components. There are lots of considerations. At the same time Murray will consider the excess power sales to the California entities.

Mr. Nicponski reviewed Murray's position stating his understanding that the City currently has 4% of the total ownership and the total megawatts are 1800. The new plant will be 1200 megawatts. He asked if Murray has the option to increase or decrease its ownership amount. Mr. Hewlett said that the City Council could authorize Mr. Haacke to negotiate that percentage up to a specific amount. There are different rules on how that would play out. He offered his availability to come back and explain that topic.

Mr. Nicponski asked if the coal is all Utah coal and if the gas would be Utah natural gas. Mr. Hewlett said the coal is all from Utah; although the natural gas sources could change depending on the election and what happens with the EPA. There are proven reserves that are incredible and it may come from outside the state.

Mr. Shaver asked Mr. Haacke about the Board and their consensus because they had been looking at this for some time. Mr. Haacke said that it had been an agenda item for some months; however, he had not gotten into the detail he would like to yet. They will begin to delve into it very heavy and continue discussions prior to making a recommendation to the Power Department. They have all been to the plant, as has Mr. Brass.

Mr. Hewlett said the plant is well run and very efficient. We expect the new plant to be built just as efficient and well run, he stated.

Mr. Shaver recommended that when the Power Board had those discussions, he would like Mr. Haacke to report to the Committee of the Whole on pertinent matters.

Mr. Brass commented that it is a concern because the City's percent of coal power is 50%. He said having the natural gas option will be interesting depending on what the EPA does.

Mr. Haacke said this will be a tough decision for Murray, but not as difficult as Price, Utah who might have to go against coal. Hunter, San Juan and IPP (when we call back) are Murray's coal resources, Mr. Haacke detailed.

Mr. Shaver asked if IPP has any reserve account developed for contingency.

Mr. Eldredge explained that IPA has cash reserves for contingencies and capital expense and is wrapped up in current contracts. The new contracts will set a framework to have those reserves in place.

Mr. Shaver said that money also goes up in cost as well as gas. Thinking ahead we could use that money to our advantage now rather than an outlay at one time. Mr. Brass said that reserves have been built to fund rebuilds. He thanked IPP and the Power Board for their presentation.

## **Business Item #2**

## **Utah Telecommunications Open Infrastructure Agency Discussion (UTOPIA)– Jim Brass**

Mr. Brass asked for this discussion due to phone calls received, the recent press coverage and the next release of bond funds for Utah Infrastructure Agency (UIA). In the mean time, he had spoken with Todd Marriott who stated that UTOPIA is looking at a plan to go forward, which may prove interesting to listen to before going deeply into this. Whether it impacts how the Council feels about it is hard to say; although he has let Mr. Marriott know that he may have an opportunity to talk with the Council.

The concern Mr. Brass pointed out was that going forward with the next bond release increases the debt of Murray City in the General Fund. He was looking for assurances that the City would see changes from where they are today. We want the citizens to know that it is being looked into further.

When the City voted to create UIA they also voted to approve \$60 million in bonding, Mr. Brass stressed. The Council can have an opinion on this; however they do not have a vote on this. Mr. Stam is the representative to UIA and does an excellent job. He had been told that there would not be a vote on the next release of bond funds that week.

Mr. Nicponski asked for clarification on the UIA. Mr. Brass said it is a separate legal entity from UTOPIA. Mr. Shaver added that it is an interlocal agreement between various communities.

Mr. Brass said the discussion could continue or wait until there is further information from Mr. Marriott.

Mr. Hales asked the amount that would be disbursed at this point. Mr. Stam said they are looking at \$10.5 to \$11 million. They are approved for up to \$60 million. Mr. Hales asked what authority the Council has – can they express their concern to Mr. Stam. Mr. Brass said that is about all that can be done.

Mr. Shaver detailed that Mr. Stam represents the City at UIA and Jan Wells represents Murray on the UTOPIA Board. The discussion he would like to have is to voice Council views to City representatives that would be instructive or helpful.

Mr. Stam reviewed that \$65 million was approved originally. Only \$29 million was drawn for the Phase 1 in order to save interest on what was not needed yet.

Mr. Shaver explained that there were two separate votes: first to become a part of UIA, and second for the bonding that was \$65 million. The initial money was explained by Mr. Stam and he noted where UIA had gone. Mr. Stam said that one reason they were only asking for \$10.5 now was to take advantage of the stimulus money, because they can only build so fast.

Mr. Shaver said that even since the approval of UIA technology had changed and new marketing ideas had been developed. The lease option had been offered, which prevents the large initial cost for the fiber customers. Many people still go for the entire lien on the property. This provides more marketing opportunities.

Mr. Brass has asked about wireless, which is a lower cost to connect than the door to door fiber. His concern relates to the revenue off of a connection versus the cost of the connection and how long it takes to pay that back. He believes this is the root of a lot of financial issues because it takes too long to pay that back. However it is funded, there still must be some profit particularly to maintain the infrastructure. A wireless could access more potential customers faster and pay off quicker. He is willing to hear about that. Ultimately, can we get to a point where we are not using more General Fund money for payments, he asked. A \$10 or \$11 million dollar release could potentially be another \$120,000 into Murray's debt payment per year. It has an impact and must be considered; the Council owes that to the citizens. He is willing to hear what the plan is. He understands that no vote on bond release will take place until the new plan is presented. Mr. Stam confirmed that and pointed out it could be two to three months before that happens.

Mr. Hales asked if concerns should be directed toward Mr. Stam who would represent the Murray Council to UIA. Mr. Stam confirmed that his job is to represent the City; however, Mr. Shaver indicated that the Council should not infringe upon Mr. Stam's right to express his own opinion.

That is true for any Council member sitting on any board, Mr. Brass noted. He said that he would like to listen to the plan and asked the questions he has about it. He feels that if they could show him he is wrong, he would change his mind. He said he enjoys the network and the speed of it; he would hate to see it go away. The bill will have to be paid regardless; his concern is how big the bill gets. He has concerns about going forward and putting more money into the network, even though he likes the technology. He is excited to look at alternatives to get more people on the network, which could make a big difference.

Mayor Snarr says that there are more people signing up locally all the time who are excited to get their families on the UTOPIA fiber network.

Mr. Brass said that according to the paper certain providers are going to start limiting data but he has not heard that from UTOPIA providers. When that happens and everything is streaming, it could change the game. Again, he does not want the City's bill to continue growing.

Mr. Shaver commented that he wanted to express his confidence in the superb job Mr. Stam and Ms. Wells are doing on the Boards they represent, how they speak and their involvement to understand the workings and finance. He too noted his interest in the new plan and how they will recover the costs expended and when it will come back. The City will pay the 30 year contract and he has questions that he is looking forward to addressing with Mr. Marriott.

Ms. Hales asked if there were a time on that plan. Mr. Brass said no time had been given; although, he does not expect a vote at UIA before that plan is presented. When the original vote was taken by the Council certain benchmarks and assurances were to be met before more money was asked for. Not a lot of those benchmarks have been met and that is a big concern. The other concern, also expressed by the Legislature, was using bond money for operations. He does not know how to get around that, but it is an issue.

There being no other business the meeting was adjourned at 6:20 p.m.

Janet M. Lopez  
Council Administrator