MURRAY CITY MUNICIPAL COUNCIL
COMMITTEE OF THE WHOLE

The Murray City Municipal Council met as a Committee of the Whole on Tuesday, October 1, 2013, in the Murray City Center, Conference Room #107, 5025 South State Street, Murray Utah.

Members in Attendance:

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

Others in Attendance:

Dan Snarr	Mayor	Justin Zollinger	Finance Director
Janet M. Lopez	Council Office	Jan Wells	Mayor's COS
Frank Nakamura	City Attorney	Doug Hill	Public Service Director
Ted Eyre	Resident	Ruth Eyre	Resident
Blair Camp	Resident	Diane Turner	Resident
Greg Bellon	Power	Bruce Turner	Power
Tim Tingey	ADS	Kellie Challburg	Council Office
Jennifer Brass	Resident	George Katz	Resident
Sally Hoffelmeyer-Katz	Resident	Briant Farnsworth	Attorneys Office
Dallas DiFrancesco	Power Board	Natalie Gochnour	Power Board
Blaine Haacke	Power, General Manager	Jennifer Kennedy	Recorders
Dan Eldredge	IPA	Jim Hewlett	IPA
Dave McKay	State of Utah	Michael Dolan	FFKR Architects
Russ Bachmour	FFKR Architects		

Chairman Hales called the Committee of the Whole meeting to order and welcomed those in attendance.

Minutes

Mr. Hales asked for corrections or action on the minutes from the Council Retreat on September 3, 2013 and also the Committee of the Whole meeting held on September 3, 2013. Mr. Shaver moved for approval. Mr. Stam seconded. All were in favor.

Business Item 2.1 **University of Utah Mid-Valley Health Facility Proposal- Tim Tingey**

Mr. Tingey introduced three individuals that were present to give the presentation; Dave McKay with the State of Utah, Russ Bachmour and Mike Dolan, both with FFKR Architects. This is a proposal to build a facility near Fashion Place Mall.

Mr. Dolan stated that they are very excited about this project and thrilled to be assisting the University of Utah. The project is a consolidation of services for University of Utah Healthcare. The Department of Dermatology and the Moran Eye Center are bringing services and outpatient clinics to Murray. The site that has been chosen is just north of Fashion Place Mall. There is a small property of land the University has purchased. There are currently four buildings on that property. Many people are familiar with the property because of the Allstate insurance building.

The University has numbered the buildings #1-#4. Mayor Snarr clarified that building #1 was the former Praxair building, building #2 is where the Bank of American Fork was, building #3 was Allstate, and #4 was a type of medical building. Mr. Dolan said that was correct. Building #4 had a surgical center on the bottom, and University of Utah health plans will be moving into that building with a few weeks.

The main plan of this project is to demolish buildings #1 and #2, and in their place, build a five story dermatology/ophthalmology building. The proposal does involve relocating the road to a little further east on the site. That would provide more patient parking, and particularly more patient friendly parking. There would be a drive into the site to create a roundabout in front of the building for patient drop-off and pick-up. A lot of the clientele are elderly people that have a harder time getting to their cars. The goal is to consolidate the parking around the building itself.

The building is split up into two different areas; the bottom two floors would be the Department of Ophthalmology, where the Moran Eye Center would operate. The top three floors would be the Department of Dermatology. Currently, the plan is for the fifth story to be empty, but would be occupied eventually. The entry would be on the bottom right hand corner of the building. It creates an L-shape of clinic spaces, and I-Lanes with Moran consolidating its Lasik services into this building. The second floor would be similar, with the I-Lanes and cornea and refractive testing. Level three would begin with the Dermatology Department. The floor plan is similar, with the exception that it is grouped into pods, with the most efficient ratios of staff to patients. Levels three, four and five are virtually identical, with the common waiting areas in the southeast corner.

The renderings shown are not the final renderings, but this first one shows the approach from the west, turning from State Street onto 6100 South. It will be a brick and metal paneling building, minimizing the western windows reducing the solar heat, improving efficiency, whereas most of these clinical spaces do not need a lot of light. The canopy on the east corner for the patient drop off would create a nice beacon to welcome the patients. The University is looking at this building as their flagship in this area and want to reach out to the community.

Mr. Dolan introduced Dave McKay from the state of Utah, and Mark Graebel from the University of Utah, and they were available to answer questions also.

Mr. Tingey asked about the Washington Federal access on the west, and if those issues were accounted for. Mr. Graebel said that those issues are currently being addressed, and hopes to come to an arrangement shortly.

Mr. Shaver asked about entrances for the doctors. Mr. Dolan said there is a separate entrance in the back area for staff. There is a gurney sized service elevator that runs on emergency power, with emergency egresses also.

Mayor Snarr asked what the timeline was. Mr. Dolan responded that a construction fence was installed that day to start demolition within the next couple weeks, approximately October 21st. Following demolition, the site would be developed and early next year the new building will begin construction. Mayor Snarr commented that it would be a demolition derby between this site and the Sears building site. The project is scheduled to be completed by February 2015. Mayor Snarr noted that the building would be shifted towards the west and the entrance would be more to the east. Mr. Bachnour agreed and said the intent was to give a little more space for the turn-around and patient drop-off. The master plan that the University of Utah has is to realign Fashion Boulevard so that it connects up on the north end.

Mr.Stam asked if a contractor had been selected. Mr. Bachnour stated that Jacobsen Construction had been selected as the general contractor. Mayor Snarr clarified that this could be phase one, developing into more properties as time goes on.

Mr. McKay commented that it had been a real pleasure to work with Murray City. There was applause from the mechanical and electrical teams when they were notified that they would be working with Murray Power. He noted that the employees have made the difference, and have been very nice to work with.

<u>Business Item 2.1</u> **<u>Intermountain Power Agency (IPA) Post 2027 Contracts Presentation- Blaine Haacke</u>**

Mr. Haacke explained that the goal for him was to make the Council comfortable with the contracts presented to them as far as the future for the IPA plan.

The current contract expires in 2027. There have been questions as to what would happen then. IPA approached the California entities to see what their plans were and compared them to the plans for Utah. The goal is to keep the plant running in some form.

California regulations have prohibited coal fired generation; it is not allowed to be brought into their state. They have to find a different plant or different fuel source. California is pushing the issue, as well as the EPA (Environmental Protection Agency). The EPA administrator last week made stronger building requirements for new coal fired plants and that is non-attainable with today’s technology. Anybody building a coal fired plant today would be unable to meet those requirements.

The goal is to discuss this issue in a work session. There would be a special Council Meeting held four weeks later to follow up on questions and hopefully pass a recommendation to possibly execute those contracts.

There are four contracts up for review. The first two are timelier than the other two. There are several reasons to continue with this project:

1. It has been a good partnership with the California group thus far. There have been ups and downs with Los Angeles through the past twenty or so years, but they have been unbelievably good negotiators in the past couple of years. In many cases, they have come more than halfway. They want this project to go forward and to continue with the Utah partnership group. It is a good economic driver for central Utah to continue also. It also gives Murray City peace of mind that there is a resource that can be relied upon. The contract has been beautiful thus far, allowing Murray to call back power when desired, and leave it on the table when not needed. Los Angeles picked up the slack or loose ends. Los Angeles has been paying the mortgage for this plant. In 2027, the 4% ownership will be Murray's, even though the City has not had to pay much of the rental, he noted.

2. Murray is the largest municipality in the IPA group. Murray holds 4% entitlement of an 1800 megawatt plant, which equals about 72 megawatts that could be called back with notice. Murray has seats on the Coordinating Committee, which is the work group, and also a seat on the IPA Board of Directors. There is some personal direction given for the direction of the plant.

Mr. Nicponski asked what the total megawatt usage was for the City. Mr. Haacke replied approximately 100 on a summer day, but 72 could be called back. Murray already has contracts with other resources also.

Mr. Haacke stated that the decision needs to be made about what to do for 2027. Mr. Haacke noted that they would like to have answers by the end of the month.

Mr. Haacke handed out a memo from the Power Advisory Board with their recommendation, a memo from Mr. Haacke, a segmented piece with a matrix, and also a memo from the City Attorney, Frank Nakamura.

Mr. Haacke introduced Dan Eldredge and Jim Hewlett, the General Manager, and Assistant General Manager from IPA, and also Natalie Gochnour and Dallas DiFrancesco from the Murray Power Board.

Ms. Gochnour noted that she is the Chair of the Power Advisory Board. She stated that the board has spent a considerable amount of time on this issue, possibly eighteen separate agendas. It has been a hard and laborious project, but full due diligence was given. At the last Power Advisory Board meeting, each contract was reviewed and votes were taken on each contract. All four contracts passed unanimously, without any dissension. It is their full recommendation that the Council look seriously at this contract and expects them to find that this will be very good for Murray City and for the State of Utah. Ms. Gochnour complimented Mr. Haacke, Mr. Bellon, Mr. Farnsworth and Mr. Zollinger for their contributions also. It has been a technical exercise, and the Power Board had been well served by this extremely competent staff at Murray City.

Mr. Haacke referred to the matrix that compared the old and new contracts. The current contract conditions are in one column, and the new contract is the other column. Mr. Haacke reiterated that his goal was to make the Council comfortable with the information by the Council Meeting on October 29th. This is important, because this contract is a 50 year commitment, he noted. The contract, if signed won't expire until 2077.

The current plant size is 1800 megawatts, noted Mr. Haacke. The new plant size would be 1200 megawatts, about 66% of the current size. LADWP (Los Angeles Department of Water & Power) is the big player, but there are five other entities involved. The other players are large cities: Riverside, Burbank, Anaheim, Glendale and Pasadena. They will have the opportunity to enter into these new contracts as well. Some of the California groups are backing down on the need and desire for the plant. That is the reason that the size is less than before. Likewise, Murray's entitlement would be 66% of what it was also. It would be around 48 megawatts, instead of 72, post 2027. Mr. Brass clarified that Murray would lose a third of the megawatts. Mr. Haacke replied that was correct and it did mean less generation if needed and called back, but there is also risk. Currently it is a coal fired plant, and since Californians can't bring coal fired generation into the state, it will most likely be changed to natural gas. One of the contracts allows for that fuel change to take place. If a different resource becomes available that is cheaper than natural gas, then that could be used. But for now, it is a two turbine plant, 600 megawatts each in the turbines.

The IPA ownership includes the plant, the transmission system, rail system and coal mines. A key component is the transmission system. Currently the transmission capacity is two and a half times the generation capacity. In other words, the transmission has been over built. If all 72 megawatts were to be recalled, there would be more than 200 megawatts of transmission. Originally, the plant was scheduled to be a four unit plant, but was downsized to two units when the economy was down. The transmission system remained bulky. There is a market for transmission, as renewables are built. The Milford wind farm has been built and is going to the Californians. There is a need to take transmission from Utah to California, but the dollar amount is yet unknown. Mr. Shaver clarified that IPA owns the lines, of which Murray has a 4% ownership. Mr. Haacke agreed, but said the idiosyncrasy to that is that there is no transmission unless generation is brought back. Currently, there hasn't been any generation called back so there is no transmission.

Mr. Stam commented that there may be a need for more resources than the plant can generate, so there needs to be additional power transmitted over those lines, via renewables or whatever source. It seems that if the Californians are taking more power than the plant can generate, then is somebody else using IPA lines for transmission, he asked. Is there a dollar value to them taking more of the resources that are producing the power to use the transmission lines, he questioned. Mr. Haacke replied no, because they are taking the generation with the transmission. Mr. Hewlett noted that the resources are all governed out through the mechanics of the contracts and so all the entitlement is under contract and under one budget. Whomever takes the energy has the right to the facilities and are paying those costs. Mr. Hewlett asked if the question was related to the new or old contract. Mr. Shaver answered the new contract. Mr. Brass commented that a third of the transmission seems to have been lost. Mr. Hewlett stated that the reason that there is a cutback on that is a trade.

Currently there isn't any coverage with respect as to what is going to happen to those units when decommissioned. There may be a large dismantling cost associated with that if the EPA decides. The Californians will take part of that obligation as part of their monthly power costs. Murray City's share of those dismantling costs would be paid by whomever is taking that power. Since the Californians are taking on an additional cost obligation, they are leaving some additional capacity, although not as much as there has been. He noted that it is correct that the renewable resources hope to have additional generation to put into the pipeline and send to California. Mr. Shaver said the trade-off is that Murray doesn't pay as much for the dismantling. Mr. Brass commented that the plant decreases but the transmission stays the same. The trade-off is a reduction in the transmission capacity, which does have value, in return for the decommission costs, which could be huge. He stated that this makes him a little more comfortable because transmission does have value, especially considering the wind farms. Ironically, the people that promote wind don't care for transmission lines, noted Mr. Brass. He believes it is a fair trade because access to that line has value. Mr. Haacke noted that part of the hope with the post 2027 issue, is that IPP will become a hub where this could be more marketable, similar to a Mona substation.

One of the problems in negotiating with the Californians was that some of them wanted to separate generation from transmission, stated Mr. Haacke. They didn't want coal-fired or natural gas, but wanted the transmission coming from Utah. Los Angeles held tight to that and talked the others into keeping it bundled; generation needs transmission.

Mr. Stam clarified that a portion of the cost of the power is being set aside for the cost of decommission later. He asked what happens if the cost of decommissioning is more than has been set aside, does it comes back to Murray. Mr. Hewlett replied that once the decision has been made to go to gas in 2020, contracts would be reviewed and look into rebuilding IPP; the known obligation would be funded then. The bond for new gas, would also include a bond for reserve for decommissioning and dismantling. It would be one bond that would cover all of those costs. Respectively going forward, the monthly power costs would include some of that debt service. It is spread out over 30-35 years in a level debt service and whomever is taking power at that time, would pay that portion of the costs.

Mr. Haacke explained that Murray has had a beautiful call back contract. When the power was needed, a three to six month notice was given. Murray City could tell Los Angeles that 10 megawatts was wanted on October 1st, and they committed to that. The City could keep it for six months and then give it back to them. Typically, the summer months is when power has been called back. IPP has not been called back for a number of years due to the market price. There have been times when it had been called back and resold through UAMPS to cities that needed it. Right after the Enron situation, there was 25 megawatts called back, then the market turned around and the City was left with a little too much. Luckily, some of it was able to be resold. It has been a good resource, and has been able to be seasonalized on a six month deal.

The new contract is a little more stringent. Los Angeles was adamant in the beginning that a callback was required to be kept for the duration of the contract. That would have hurt and forced Murray to never call back IPA. After negotiations, there can be a one year notice to call back any portion. There is no cap on the amount that can be called back. The downside is that the callback must be kept for three seasons; one half can be laid back in the fourth season, and the other half laid back in the fifth season. This results in a five year cycle to go from use to non-use. This will require the projections to be fine-tuned. This helps with the short-term. Los Angeles has been at the whim of Utahns desire to call back power. They had hoped that Utah would grow into this resource back in the 1989's but Utah never has grown into it. Mr. Eldredge commented that there was a callback from Utah scheduled for the winter season, but there were no callbacks done over the summer season.

Mr. Haacke noted that before there had to be a six month season; April- September. The other six months were considered the winter season. There had never been a need for a winter callback, but during summer there have been callbacks. Sometimes it hurt because of the seasons. That has been negotiated to a four month summer season, and an eight month winter season. That will help Murray in a huge way. Mr. Stam clarified that call back is by season and not by year. Murray has the ability to call it back for three seasons and then lay it back if so desired.

Under the current contract, the Utahns were held to a 50 megawatt ceiling on a non-pre-call callback. At times, it felt like the City was fighting other cities for callback capability. If Los Angeles knew about it ahead of time, more could be requested. If there wasn't advance notice, the cap would have been 50 megawatts. Now, callbacks could be done individually by different cities. For example, if there was a catastrophic loss of 20 megawatts, and the other UAMPS cities are calling back also, this would help to be able to call back on an individual basis. Mr. Shaver clarified that it could be an individual city negotiating directly for a callback with LADWP. Mr. Haacke commented that Los Angeles has really come to the table for negotiating.

The cost would be bonded by IPA. There was a risk assessment done by the attorneys, and the letter was sent to the Power Board, with the different risks earmarked.

Mr. Shaver asked about the length of the debt. Mr. Haacke replied that is unknown, because the bond hasn't happened yet. He would assume the bond would be for about a billion dollars, but the mix of short-term and long-term debt is unknown, as well as the amortization period. Mr. Hewlett commented that it would be whatever the market is at in about seven years, which is unknown. He said there is a capital plan in place right now. It is a modest cost of borrowing for this project that has been managed very well. The same amount of expertise and consultation would go towards this contract. Mr. Eldredge commented that the term is likely to be over the economic life of the plant. It would probably be taken out to the point of necessary additions and renovations for maintenance, so it would be a level cost in debt service.

Mr. Hewlett stated that there is a lot of infrastructure at IPP that will be used in the new project that will not need to be bonded for. There may be rehabilitation costs on some of it, but that has already been amortized. The amount of the bond will be strictly for the gas generation. Transmission doesn't need to be rebuilt or permitted and the water is already there. The same switchyard can also be used. Mr. Haacke mentioned one key clause is that one coal-fired plant can be operative, post 2027, if so desired. Mr. Nicponski asked about the charge to retrofit the plant. Mr. Haacke said it would be a totally new and separate plant, adjacent to it.

Mr. Shaver asked what happens if some groups decide to drop out and yet not pull their power, but new participants cannot be added. Mr. Haacke explained those are called orphan shares. Murray City would have the right to be in a pool with others to have the ability to snap up those shares. Mr. Haacke noted that if a Utah City dropped out, those shares would be distributed equally within the Utah pool. The Californians would take the California groups. Mr. Nicponski asked how many plants were included in the estimated billion dollar figure. Mr. Haacke replied that it would be two, about 500 million cost per unit.

Mr. Haacke said the first contract for review allows IPA to change the fuel to natural gas. The first two contracts also start the decommissioning reserves coming in. Those two need to be executed. The second amendatory is something that 100% of the Utah Cities, as well as the six co-ops need to sign off on. Mr. Haacke said it looks positive for the Utah municipalities at 100%, and the co-ops are showing good signs also. Mr. Hewlett said that five of the cities have already approved. Mr. Nicponski asked if there were any problems in the Price/Carbon area. Mr. Haacke said that the city of Price was one of the first to sign. Mr. Haacke said the Mayor of Price was totally in support as was the Council, although they did have concerns about job losses. Mayor Snarr commented that there were a lot of natural gas wells there to possibly convert also.

Mr. Haacke stated that contract #3 was the actual renewal for the 4% entitlement. There is a little more time to review on that contract and the 4% entitlement can be altered.

The fourth contract is the excess power sales agreement. This gives the City the chance to layoff and that is an important one also, but could be signed at a later date. Some of the cities have passed all four at one time, while other cities have opted to pass two at a time, and review the orphan shares and entitlement. Mr. Stam asked if 100% of the cities have to pass it, where would the orphan shares come from. Mr. Haacke explained that two cities have been hesitant about renewing. They would be a participant until 2027, but just not renew at that time. Mr. Hewlett added that all the cities need to come into the second amendatory power sales contract, but to enter into the renewal power sales contract would be optional. He explained that is where the orphan shares would come from.

Mr. Shaver asked what timely meant. Mr. Haacke said that he would like the first two contracts to be signed at the meeting on October 29th. Mr. Nicponski asked if the Power Advisory Board had passed these also. Mr. Haacke replied that they had.

Mr. Brass asked what percentage of Murray's current resources were coal. Mr. Haacke replied that about 40% to 50% was from coal. He mentioned that a lot of coal was purchased from UAMPS. Mr. Brass noted that this has come a long way, particularly with the callbacks. He has concerns about natural gas being acceptable in the future, with fracking and other environmental issues. He noted that the exposure isn't as great with 48 megawatts. He feels good about the contract and noted that LADWP commented on the difficult expectation of scheduling power when it isn't known if the 300 megawatts would be available in six months. That made him aware of the situation that LADWP is in. He believes this agreement is much better than it was a year ago. He noted that coal is going to be a problem and will get more expensive, as plants are required to clean up their emissions. He stated that a fallback of 48 megawatts of natural gas is a good thing.

Mr. Haacke commented that the beauty of this agreement is if the power isn't called back, there is no cost at all. Mr. Haacke said the City would be more apt to call it back in the summer season, now since there are only four months to play with. Mr. Brass noted that the power load fluctuates during the day, but the same price is paid throughout the day. Sometimes it will benefit the City and other times it will not.

Mr. Haacke said he feels good about the contract, and agreed that it has come a long way.

Mr. Nakamura commented that Mr. Haacke was very instrumental in the call back negotiations. Mr. Haacke was a really good negotiator, and getting it to three years was important. He also noted that the bond had been identified as a risk in the memo, but that is a risk that always exists. He mentioned that he had spoken with Eric, who said that the provisions in the agreement allow for any problems to be paid with the revenues. The City will not be personally liable, and the City's assets won't be subject to default. He believes there would be an obligation to raise rates to cover expenses, but the City itself is not liable. That is worst case scenario. His other question was on financing, but the market is unknown in seven years, so those are just risks involved with any contract.

Mr. Nakamura commented on the Renewal Sales Power Contract and said it could be passed with some flexibility for the Power Department to pick up those orphan shares.

Mr. Hewlett noted that IPP appreciates Murray's involvement. Murray is the largest participant from the Utah municipalities, providing a lot of leadership for the other cities to look to. Murray has had a member sit on the IPP Board, which has been helpful. He noted that this partnership in this site has developmental capabilities that aren't even possible at this time.

Mr. Nakamura recognized Briant Farnsworth and his efforts with this contract.

Mr. Hales adjourned the meeting.

Kellie Challburg
Council Office Administrator II