

# **Direction Concerning Rio Grande Natural Gas**



# Reorganization of the Rio Grande Natural Gas Association

Council Work Session  
June 14<sup>th</sup>, 2010



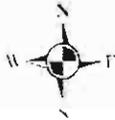
## Background

- City and Hatch, owners of RGNGA, appointed a Task Force to develop and recommend alternatives for the future operation and management of the utility.
- The Task Force reviewed and analyzed several alternatives, and presented those to the owners.
- Owners directed to pursue one of the alternatives involving reorganization of the utility.
- Task Force presented a preliminary recommendation in September, 2009.

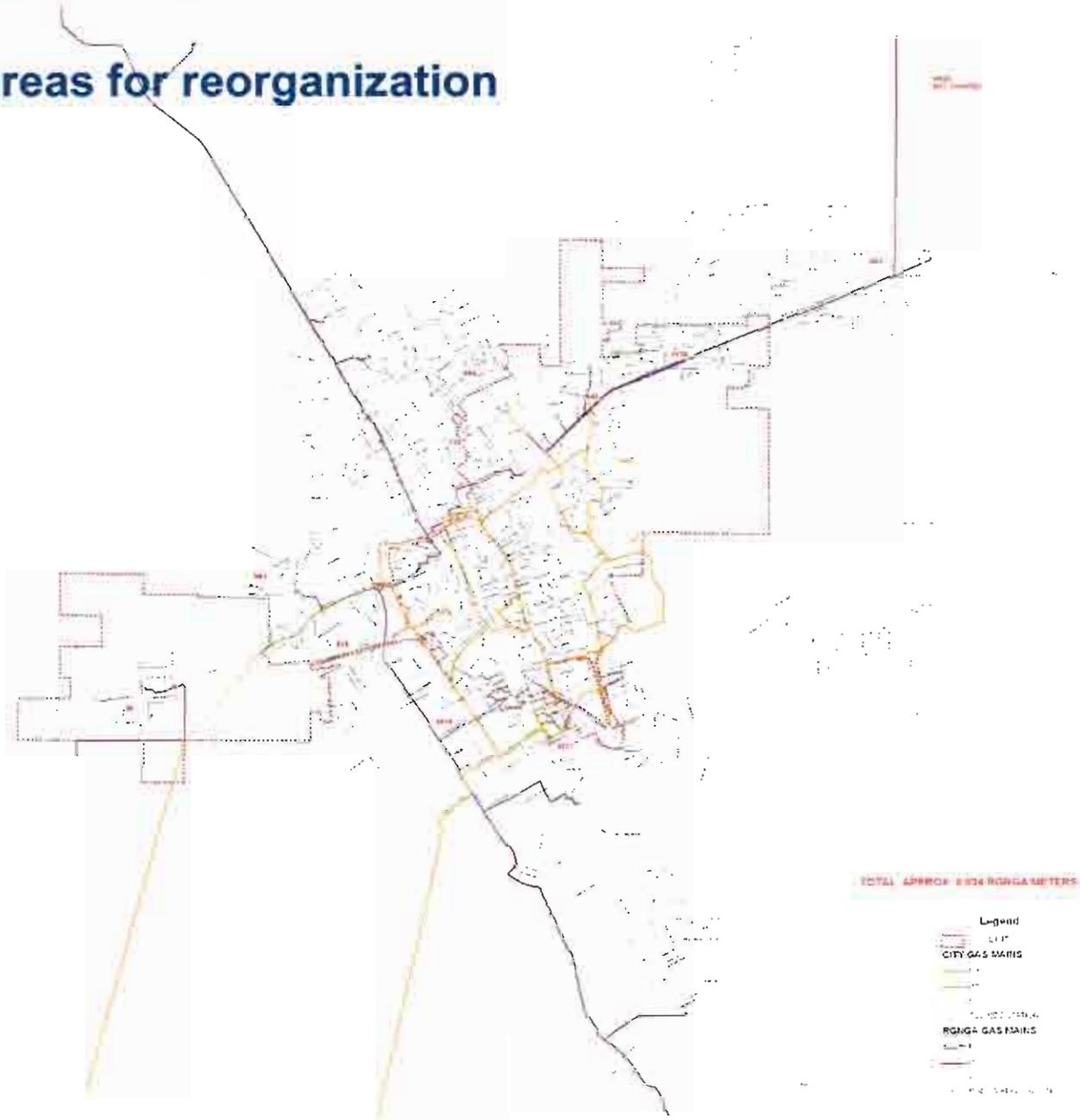


## Preliminary Task Force Recommendation for Reorganization

- At the time, Rio Grande Natural Gas Association (RGNGA) had about 334 commercial customers and 14,721 residential customers.
- Suggested reorganization would transfer about 93 commercial customers and 6,000 residential customers from RGNGA to Las Cruces utility service.
- Las Cruces would pay 1.2 million and would retain 10% ownership in the “new” RGNGA.



# Initial areas for reorganization



## Refined Recommendation for Reorganization

- A variation to the original Task Force recommendation would:
  - Eliminate any ownership by City, and
  - Would not require any funding from the City (originally \$1.2 million in order to have 10% ownership)
  - Hatch would own 100% of the Association, with the City solely as a member;
  - Hatch would appoint a new RGNGA Board;
- Customer count as follows:
  - City – 6,244
  - RGNGA – 10,625



## Additional Geographic Service Areas under Consideration for City

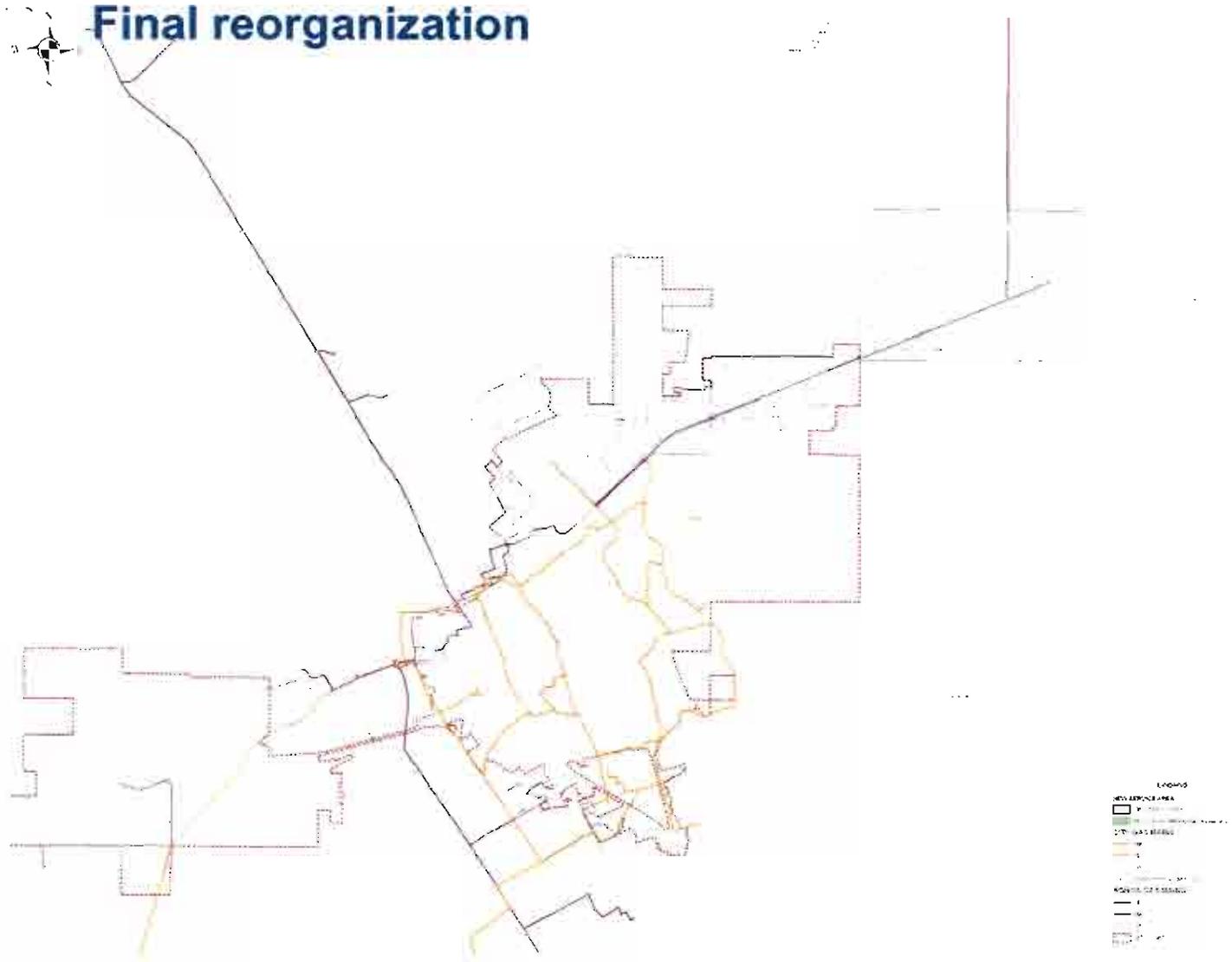
- All of the East Mesa including NASA.
- The Las Cruces Industrial Park including F&A Dairy.
- Most of the ETZ. By State statute, the City can legally serve in the ETZ.



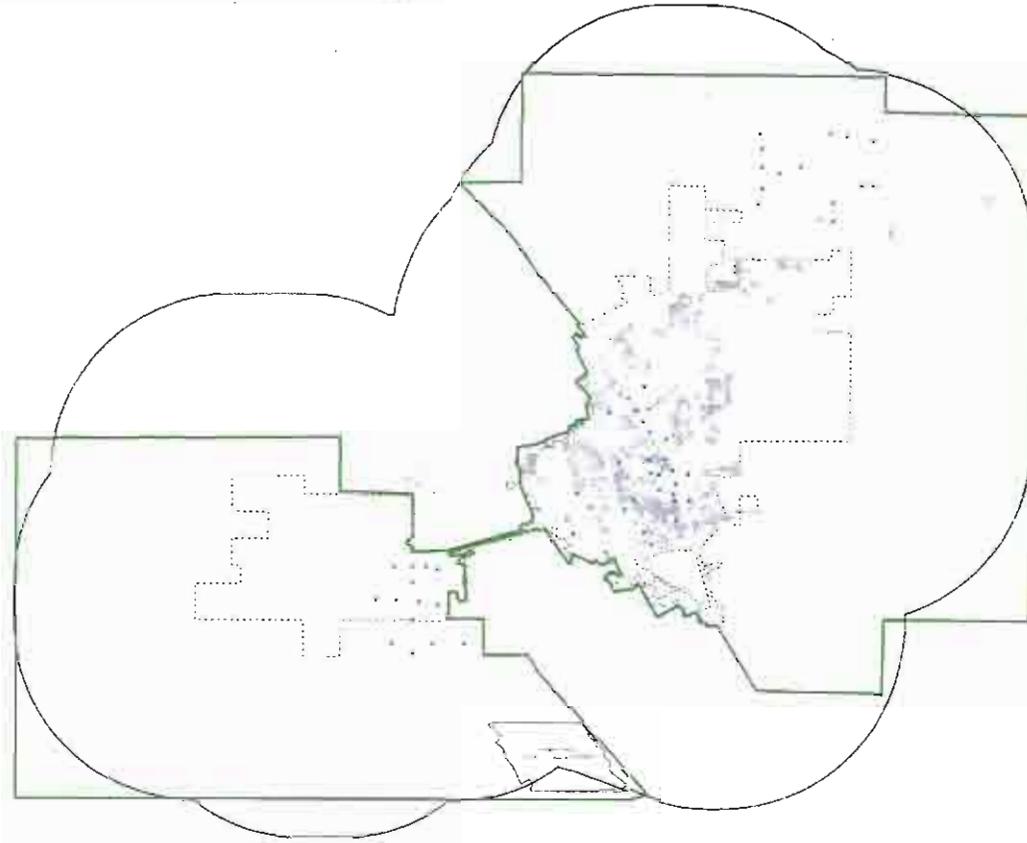
## Proposed Geographic Service Areas for New RGNGA

- North and South Valley remains with RGNGA.
- Mesilla and Picacho Hills customers would remain with RGNGA.
- Outside of City's Service Area.

# Final reorganization



## Service area boundary



**Original  
Proposal**

**RGNGA Task Force Preliminary Reorganization**

**RGNGA Joint Owners Meeting Monday, Sep. 14, 2009**

Line No.		Estimated Present Value Summary	Number of Customers	Customer Volume (Mcf)
1	<b>Total Present Value (PV) of Current RGNGA (net of outstanding debt)</b>	<b>\$15,074,230</b>		
	<b><u>Las Cruces Present Value (PV) Summary</u></b>			
2	PV of Commercial Cust. Transferred to LC	\$3,856,809	93	271,222
3	PV of Residential Cust. Transferred to LC	\$4,179,325	5,998	293,902
4	10% LC Ownership in New RGNGA	\$703,810		
5	Other Compensation (to) from RGNGA	<b>(\$1,202,829)</b>		
6	<b>Total LC PV</b>	<b>\$7,537,115</b>		<b>565,124</b>
	<b><u>Hatch Present Value (PV) Summary</u></b>			
7	90% PV of New RGNGA Commercial Cust.	\$1,944,025	241	151,899
8	90% PV of New RGNGA Residential Cust.	\$5,470,261	8,723	427,427
9	90% Outstanding Debt	<b>(\$1,080,000)</b>		
10	Other Compensation to (from) RGNGA	\$1,202,829		
11	<b>Total Hatch PV</b>	<b>\$7,537,115</b>		<b>579,326</b>
12	<b>Total PV LC and Hatch</b> (Line No. 12 should match Line No. 1)	<b>\$15,074,230</b>		

**Revised  
Proposal**

**RGNGA Task Force Preliminary Reorganization**

Adapted from RGNGA Joint Owners Meeting Monday, Sep. 14, 2009

Line No.		Estimated Present Value Summary	Number of Customers	Customer Volume (Mcf)
1	<b>Total Present Value (PV) of Current RGNGA (net of outstanding debt)</b>	<b>\$17,770,927</b>		
	<b><u>Las Cruces Present Value (PV) Summary</u></b>			
2	PV of Commercial Cust. Transferred to LC	\$3,856,809	93	271,222
3	PV of Residential Cust. Transferred to LC	\$4,350,735	6,244	305,956
4	10% LC Ownership in New RGNGA	\$0		
5	Other Compensation (to) from RGNGA	\$0		
6	<b>Total LC PV</b>	<b><u>\$8,207,544</u></b>		<b><u>577,178</u></b>
	<b><u>Hatch Present Value (PV) Summary</u></b>			
7	PV of New RGNGA Commercial Cust.	\$2,160,027	241	151,899
8	PV of New RGNGA Residential Cust.	\$7,403,356	10,625	520,625
9	100% Outstanding Long-Term Debt	(\$900,000)		
10	Other Compensation to (from) RGNGA	\$0		
11	<b>Total Hatch PV ***</b>	<b><u>\$8,663,383</u></b>		<b><u>672,524</u></b>

\*\*\* Before other RGNGA liabilities



## Next steps to follow....

Owners will adoption formal resolution authorizing the reorganization

City and new RGNGA will:

- Develop necessary agreements (transportation)
- Proceed to retire RGNGA bonds at RGNGA's sole expense
- Develop a final implementation "plan" for reorganization
- Execute the "plan"



End of Presentation

## RESOLUTION NO. 11-

### RESOLUTION AUTHORIZING THE REORGANIZATION OF RIO GRANDE NATURAL GAS ASSOCIATION AS SET FORTH HEREIN.

The City Council of the City of Las Cruces is informed that:

**WHEREAS**, Rio Grande Natural Gas Association (“Association”) was formed as a non-profit corporation and inter-community natural gas association in 1969 pursuant to NMSA 1953, Sections 14-27-1 through 14-27-18, which sections were re-codified as NMSA 1978, Sections 3-28-1 through 3-28-22, with the Village of Hatch (“Village”) and the City of Las Cruces (“City”) (collectively the “Owners”) as the original members and owners; and

**WHEREAS**, Village Resolution No. 645 and City Resolution No. 05-243A provided in part that the assets of the Association in their entirety are jointly and in equal shares owned by the City and the Village. City Resolution No. 05-243A further provided that the City would commit to entering into good faith discussions with the Village to resolve several critical issues, including amending or changing the corporate organization of the Association, redefining membership of the Association’s Board of Directors, establishing definitive fiscal agency authorization, and establishing a definitive mechanism for the sale of Association customers and related tangible and intangible assets to the City through payment or other consideration to the Association; and

**WHEREAS**, the Association’s Board of Directors thereafter approved an amendment in Resolution RG-05-09, which amendment provided that, upon

dissolution, all assets of the Association shall be owned in severalty by the City and the Village as tenants in common with each Owner owning 50% therein; and

**WHEREAS**, the Owners appointed a Task Force in June 2008 to develop and recommend alternatives for the future operation and management of the Association. The Task Force reviewed and analyzed several alternatives which were presented to the Owners. The alternative selected by the Owners in September 2009 would reorganize the Association by transferring all of the Association customers within the City limits and some of the Association customers within parts of the Extraterritorial Zone ("ETZ") to the City, and by amending the Association's certificate of association (also referred to as the Association's articles of incorporation) and bylaws to reflect the proposed change in ownership interest and in the composition of the Board of Directors as provided below; and

**WHEREAS**, the Owners recognize that in order to reorganize the Association the Association's bonded debt needs to be paid; and

**WHEREAS**, the Association retained the services of Sunrise Engineering, Inc. to perform a viability study for the reorganized Association under the task force's recommended reorganization plan selected by the Owners; and

**WHEREAS**, the Owners contemplate that the City and the Village would remain the sole members of the reorganized Association, and that the Village would own 100% of the reorganized Association; and

**WHEREAS**, the City asserts and the Village shall confirm the City's assertion by adopting a comparable resolution that the Association owns and will retain ownership

of the Rio Grande Tap and the Associated Pipeline, commonly referred to as the Rio Grande High Pressure Main Line, and the El Paso Natural Gas Company firm transportation contract No. 9823; and that the City owns and will retain ownership of the following major infrastructures which are used in part by the City to deliver natural gas to the Association and to monitor and control such deliveries: high pressure transmission lines commonly referred to as the Tillman Line and the Afton Line, regulator stations commonly referred to as the West Mesa Regulator Station, the Martinez Regulator Station, and the Sonoma Metering Station, and the SCADA System; and

**WHEREAS**, with the adoption of this Resolution, the reorganization of the Association shall be approved by the City and, upon completion of the reorganization as provided for in this Resolution, the City will no longer have any economic ownership in the Association, and will have received its full asset distribution as contemplated by this Resolution.

**NOW, THEREFORE, BE IT RESOLVED BY THE GOVERNING BODY OF THE CITY OF LAS CRUCES THAT:**

**(I)**  
**REORGANIZATION**

A. As a result of the reorganization as set forth herein, the Village shall remain a member of the Association and shall have 100% ownership interest in the reorganized Association, and the City shall remain a member of the Association to meet the statutory requirements of NMSA 1978, Section 3-28-1 (1993) and shall have no

ownership interest in the reorganized Association. Effective with the adoption of fully compatible resolutions by the Owners approving the reorganization of the Association, the City's appointees to the Association's existing Board of Directors shall vote in favor of amending the Association's Articles of Incorporation in compliance with NMSA 1978, Section 3-28-6 (1990), by separate Board Resolution, to perfect the changes contemplated herein. The amended Articles of Incorporation shall provide that the Village shall be solely entitled to appoint all members of the new Board of Directors for the reorganized Association; and shall set forth the new service area for the reorganized Association identical with the service areas set forth in Exhibits "A-1" and "A-2" attached hereto and as otherwise provided in this Resolution.

B. The Village shall then appoint all members of the new Board of Directors for the reorganized Association in accordance with the amended Articles of Incorporation. The new Board shall be solely entitled to amend the existing bylaws in compliance with NMSA 1978, Section 3-28-8 (1965) as it deems necessary.

C. Effective with the appointment of the new Board, the new Board shall have the sole power to act on behalf of the Association, including proceeding with any future dissolution of the Association, with no further involvement by the City.

D. The City shall continue to operate the reorganized Association in accordance with the Cooperative Services Agreement dated June 21, 1971 currently in effect as between the Association and the City by using the existing cost allocation system, which is based on the City's actual costs, for a period not to exceed one year from the date of this Resolution. The City's Utilities Department administrative charges

for gas administration and for the gas analyst salary expenditures paid in monthly installments by the Association will be reduced by 50%. The City's annual MIS fee of \$90,321 paid in monthly installments by the Association will be reduced by 50%. The City's annual administrative charge for finance functions of \$82,433 paid in monthly installments by the Association will be reduced by 50%. In addition, no capital improvements shall be made by the City without the prior approval of the new Board.

**(II)**  
**BOND PAYMENT**

A. Payment of the Association's outstanding revenue bond shall be made as follows: Utilizing cash reserves and other cash accounts held by the Association, the bond will be paid in full by the reorganized Association after July 1, 2010 without cash contribution by the City. The new Board shall direct bond counsel, in coordination with City staff as fiscal agent, to prepare the appropriate documentation.

B. After payment of the bond and transfer of the customer deposits as provided below, any cash assets whether positive or negative remaining on the books of the Association shall belong solely to the Association.

**(III)**  
**SERVICE AREAS**

In order to avoid future service area disputes between the reorganized Association and the City, and to implement the intent of the Task Force's recommendation to transfer certain Association customers to the City, the following service areas are established as between the City and the reorganized Association:

A. City Service Area. The City shall be exclusively entitled to serve areas shown on Exhibits "A-1" and "A-2" attached and incorporated herein as well as the Aldershot of New Mexico, Inc. ("Aldershot") site. The City's service area as shown on the exhibits generally includes the existing City limits; New Mexico State University; those portions of the ETZ west and south of the City's western municipal boundaries; and those portions of the ETZ east of I-25. However, the City's service area shown on the Exhibits shall control over the general description set forth above. Further, if there is any inconsistency between the map identified as Exhibit "A-1" and the geographic description identified as Exhibit "A-2", Exhibit "A-2" shall control.

B. Reorganized Association Service Area. The reorganized Association shall be exclusively entitled to serve all of the area outside of the City service area as shown on the exhibits.

C. Aldershot. The Aldershot site is located off of south Main Street at 3905 Meadowlark Lane, is a current City gas customer, and shall remain a City gas customer even though the site is located within the reorganized Association service area as shown on the exhibits.

D. Future Annexations by the Town of Mesilla. The Town of Mesilla as its boundaries exist as of the date of this Resolution will be within the service area of the reorganized Association. If the Town of Mesilla annexes lands within the City's service area as shown on Exhibits "A-1" and "A-2" and the City is not providing natural gas service within any part of the annexed lands, then the reorganized Association may serve the newly annexed area. If the Town of Mesilla annexes lands within the City's

service area as shown on Exhibits "A-1" and "A-2" and the City is providing natural gas service within any part of the annexed lands, then the reorganized Association shall compensate the City for the loss of the individual gas customers within the annexed area as negotiated between the parties and may then serve the newly annexed area.

E. Customer Accounts. The City and the reorganized Association shall coordinate (1) the exchange of customer account information based on the establishment of the respective service areas set forth herein, which information shall include related accounts receivable; and (2) the transfer of cash associated with customer deposits, including any accrued interest, for Association customers being transferred to the City and for City customers within the Rios Encantados subdivision and along Carver Road being transferred to the reorganized Association. Accounts receivable shall be equitably allocated between the City and the reorganized Association as agreed to between City staff and the reorganized Association.

#### (IV) INFRASTRUCTURE AND RIGHT OF WAY

A. Infrastructure Within City Service Area. Any distribution infrastructure and gas meters owned by the Association within the City service area shown on the exhibits and associated with the Association customers being transferred to the City shall be transferred to the City.

B. Infrastructure Within the Reorganized Association's Service Area. Any distribution infrastructure and gas meters owned by the City within the reorganized Association's service area shown on Exhibits "A-1" and "A-2" and associated with the

City customers within the Rios Encantados subdivision and along Carver Road being transferred to the reorganized Association, shall be transferred to the reorganized Association.

C. Easements and Rights of Way. Easements and rights of way authorizations associated with the distribution infrastructure to be transferred between the City and the reorganized Association shall be assigned as appropriate.

D. Martinez Regulator Station. The Martinez Regulator Station located on City property along west Picacho Avenue is fully owned by the City. However, the City will provide the reorganized Association with scheduled access and emergency access to the Martinez Regulator Station to monitor and regulate the pressures of gas delivered to the reorganized Association's system. If sufficient City owned property exists, the City will grant an easement at no cost to the reorganized Association for a new regulator station within the Martinez Regulation Station site.

E. Future Taps. The City will grant the reorganized Association additional taps at locations that do not adversely affect the existing City gas system, as determined by Las Cruces Utility Engineering. The taps and all associated costs will be at the sole expense of the reorganized Association. The costs will include but are not necessarily limited to meters, valves, actuators, power, flow computers, communication equipment, secure enclosure/building, labor, land or right of way cost, and overhead.

**(V)**  
**CONTRACTS**

A. Existing Natural Gas Sale Contract. The existing Natural Gas Sale Contract between the City and the Association dated June 1, 2006 shall remain in full force and effect until June 30, 2011.

B. Replacement Transportation Contract. The Las Cruces Utilities Board on behalf of the City and the reorganized Association shall negotiate a long-term natural gas transportation contract on or before June 30, 2011. The replacement transportation contract will be for a term of 30 years, will contain an arbitration clause in accordance with the New Mexico Uniform Arbitration Act, will provide capacity for the reorganized Association of 15,000 Dth per day on City transmission lines as designated by the City, and will provide for a two-part transportation rate with a reservation charge of \$0.80 per Dth for the 15,000 Dth per day reservation capacity and a usage charge of \$0.02 per Dth for volumes transported by the City for the reorganized Association.

**(VI)**  
**MISCELLANEOUS PROVISIONS**

A. The provisions of this Resolution are binding on the successors or assigns of the reorganized Association.

B. This Resolution is of no effect if the Village does not approve a resolution fully compatible with this Resolution before \_\_\_\_\_, 2010, and if the Association's Articles of Incorporation are not amended as set forth in Paragraph I(A) above before \_\_\_\_\_, 2010.

C. City staff is authorized to do all deeds necessary to accomplish the intent of this Resolution including the City Attorney's office notifying the City Clerk and the Village in writing that the requirements set forth in Paragraph VI(B) have been completed to the satisfaction of City staff.

**DONE AND APPROVED** on this \_\_\_\_\_ day of July, 2010.

APPROVED:

**DRAFT**

\_\_\_\_\_  
Mayor

(SEAL)

ATTEST:

**DRAFT**

\_\_\_\_\_  
City Clerk

Moved by: \_\_\_\_\_

Seconded by: \_\_\_\_\_

VOTE:

Mayor Miyagishima: \_\_\_\_\_

Councillor Silva: \_\_\_\_\_

Councillor Connor: \_\_\_\_\_

Councillor Pedroza: \_\_\_\_\_

Councillor Small: \_\_\_\_\_

Councillor Sorg: \_\_\_\_\_

Councillor Thomas: \_\_\_\_\_

APPROVED AS TO FORM:

**DRAFT**

\_\_\_\_\_  
Marcia B. Driggers  
Senior Assistant City Attorney



**EXHIBIT A-1**

## **Description of the City of Las Cruces Natural Gas Service Area June, 2010**

A boundary line of service situate in Dona Ana County, New Mexico, and being more particularly described as follows to wit:

Beginning at the northeast section corner of Township 21South Section 25 Range 3East;

Thence in a southerly direction for a distance of 73,920 feet, more or less, to the southeast section corner of Township 23South Section 36 Range 3East;

Thence in a westerly direction for a distance of 21,120 feet, more or less, to the northeast section corner of Township 24South Section 5 Range 3East;

Thence in a southerly direction for a distance of 10,560 feet, more or less, to the southeast section corner of Township 24South Section 8 Range 3East;

Thence in a westerly direction for a distance of 18,140 feet, more or less, crossing a tract owned by Salopek Foundation and further identified under parcel ID 03-22384 to the eastern right-of-way line of Interstate 10;

Thence along the eastern right-of-way line of Intersection 10 due northwest to the intersection of eastern right-of-way line of Interstate 10 and the City Limits which lies on the south side of Las Piedras Road;

Thence along the City Limits, crossing Interstate 10; in a westerly direction to the intersection of the City Limits and the southwest property corner of a parcel of land owned by the City of Las Cruces and further identified under Parcel ID 02-21847;

Thence leaving the southwest property corner of Parcel ID 02-21847 in a southwesterly direction along the south side of the Elephant Butte Irrigation District (EBID) outfall channel, that is immediately south of Astor Drive, to the intersection of the western right-of-way line of New Mexico State Road 478, also known as South Main Street and the eastern right-of-way line of Burlington North Santa Fe Railway;

Thence along the western right-of-way line of New Mexico State Road 478 in a northwesterly direction, to the intersection of the western right-of-way line of New Mexico 478 and the north right-of-way line of the EBID Park Drain;

Thence along the Park Drain in a westerly direction to the intersection of the Park Drain and the City Limits at the southwest corner of Mesilla Park Elementary School;

Thence along the City Limits to the intersection of the City Limits and the northern right-of-way line of Union Avenue;

Thence along the City Limits on Union Avenue, in a northeasterly direction to the intersection of Union Avenue and the eastern right-of-way line of the EBID Laguna Lateral;

## **Description of the City of Las Cruces Natural Gas Service Area June, 2010**

Thence along the Laguna Lateral in a northwesterly direction to the intersection of Laguna Lateral and the City Limits at the southwest corner of the Mesilla Heritage Phase II subdivision and further identified under parcel ID 02-25947;

Thence along the City Limits in a northwesterly direction to the intersection of the City Limits and the eastern right-of-way line of the EBID Mesilla Drain;

Thence leaving the City Limits crossing the EBID Mesilla Drain and the EBID Mesilla Lateral to the eastern right-of-way line of New Mexico State Road 292;

Thence along the eastern right-of-way line of New Mexico State Road 292 in a northwesterly direction to the intersection of New Mexico State Road 292 and the southeast corner of Interstate 10;

Thence crossing New Mexico State Road 292 to the intersection of the New Mexico State Road 292, the southwest corner of Interstate 10, and the City Limits;

Thence along the City Limits, crossing the Rio Grande, to the intersection of the City Limits and the southeast section corner of Township 23South Section 32 Range 1East;

Thence leaving the City Limits in an easterly direction for a distance of 5,280 feet, more or less, to the northeast section corner of Township 24South Section 4 Range 1East;

Thence leaving the northeast section corner of Township 24South Section 4 Range 1East in a southerly direction for a distance of 5,280 feet, more or less, to the northwest section corner of Township 24South Section 10 Range 1East;

Thence leaving the northwest section corner of Township 24South Section 10 Range 1East in an easterly direction for a distance of 6,190 feet, more or less, to the intersection of north section line of Township 24South Section 11 Range 1East and the western boundary line of the Rio Grande;

Thence along the western boundary line of the Rio Grande in southeasterly direction to the intersection of western boundary line of Rio Grande and the west right-of-way line of the EBID Westside Canal;

Thence along west right-of-way line of the Westside Canal in a southeasterly direction to the intersection of the Westside Canal and the EBID Santo Tomas Spur Drain;

Thence leaving the intersection of the Westside Canal and the Santo Tomas Spur Drain in a southwesterly direction for a distance of 2,850 feet, more or less, to the northeast section corner of Township 24South Section 31 Range 2East;

Thence in a westerly direction for a distance of 89,760 feet, more or less, to the southwest section corner of Township 24South Section 28 Range 2West;

## **Description of the City of Las Cruces Natural Gas Service Area June, 2010**

Thence in a northerly direction for a distance of 52,800 feet, more or less, to the northwest section corner of Township 23South Section 9 Range 2West;

Thence in an easterly direction for a distance of 47,520 feet, more or less, to the northeast section corner of Township 23South Section 11 Range 1West;

Thence in a southerly direction to the intersection of the east section line of Township 23South Section 14 Range 1West and the City Limits;

Thence along the City Limits, crossing the Rio Grande, to the intersection of the City Limits and the east right-of-way line of the EBID Mesilla Lateral;

Thence leaving the City Limits along the east right-of-way line of the Mesilla Lateral to the intersection of the Mesilla Lateral and the north right-of-way line of the Outfall Channel of the Las Cruces Flood Control Dam;

Thence along the north right-of-way line of the Outfall Channel of the Las Cruces Flood Control Dam in a northeasterly direction to the intersection of the Outfall Channel, the east right-of-way line of the EBID Las Cruces Lateral and the City Limits;

Thence along the City Limits in a northeasterly direction to the intersection of the City Limits and the eastern right-of-way line of Interstate 25;

Thence leaving the City Limits along the eastern right-of-way line of Interstate 25 in a northwesterly direction to the intersection of the eastern right-of-way line of Interstate 25 and the north section line of Township 22South Section 4 Range 1East;

Thence in an easterly direction to the southwest section corner of Township 21South Section 35 Range 1East;

Thence in a northerly direction for a distance of 15,840 feet, more or less, to the northwest section corner of Township 21South Section 23 Range 1East;

Thence in an easterly direction for a distance of 52,800 feet, more or less, to the northeast section corner of Township 21South Section 20 Range 3East;

Thence in a southerly direction for a distance of 5,280 feet, more or less, to the northwest section corner of Township 21South Section 28 Range 3East;

Thence in an easterly direction for a distance 21,120 feet, more or less, to the northeast section corner of Township 21South Section 25 Range 3East to the place and point of beginning.

NOTE: All City Limits and properties referenced in this Description are current as of June, 2010.