

PAROWAN POWER BOARD MINUTES
JUNE 15, 2023
CITY OFFICES – 35 EAST 100 NORTH – 5:30 P.M.

MEMBERS PRESENT: Jared Burton (Chair), Jeremy Franklin (Power Superintendent), Dan Jessen (City Manager), Matt Gale (Council Representative), Sharon Downey (Council Representative), Greg Evans, Stacy Gale (Secretary).

MEMBERS ABSENT: Kyle Hansen.

PUBLIC PRESENT: None.

CALL TO ORDER: Jared Burton called the meeting to order at 5:30 P.M.

DECLARATION OF CONFLICTS WITH OR PERSONAL INTEREST ON ANY AGENDA ITEMS: None.

APPROVAL OF MINUTES: Sharon Downey moved to approve the minutes of April 20, 2023. Greg Evans seconded the motion. All members present voted in favor of approval. The motion carried. The minutes were approved.

RATE STUDY DISCUSSION WITH CHRIS LUND – Chris Lund said they have been working on a study for Parowan. He would like to talk about where they see Parowan financially right now, where we have been the past few years, and where they see us financially in the next few years. With that, they are recommending certain adjustments to our rates and want to review that with us. Chris said they are planning on presenting this at the July 13, 2023 City Council Meeting for hopeful approval of recommended rates to be implemented shortly after that.

Chris Lund shared a graph of the Electric Cost of Service Study FY2024 Projection Summary for years 2024-2028. He said, in summary, the columns in the graph are key financial indicators of the Electric Fund. The main one is the Cash Balance; this is the first financial target. They want to make sure we have enough cash on hand to pay our operational expenses including wages, power supply bills, everything we need to run our electric utility on a month-to-month basis. They also want us to have money set aside for doing our capital improvement projects to help keep our infrastructure up and running efficiently.

The next key target they look at is what they call a Debt Coverage Ratio which is a measurement of debt affordability; are we receiving enough money from our customers to pay our bills and debt payment. Chris said they like have a target of 1.5 ratio which gives us a .25 cushion and would give us enough cash on an annual basis to pay our debt payment at least 1 ½ times annually. He said we currently meeting that.

Chris said the next thing they look at is the Adjusted Operating Income. What they look at is after we complete the fiscal year, what expenses have we paid and what revenue have we brought in; do we have a net positive income. As a utility, they would like to see us cash flowing from operations on an adjusted income basis around \$300-\$400,000 per year. Fiscal year 2023

they are anticipating we might be as low as negative \$500,000. The primary driver for that is our power supply. Chris said he has worked with Jeremy and they did the best they could to project out the power supply cost for next year. They felt given the status of the industry, and hopefully coal will be more available, the anticipated power supply cost for the next fiscal year would hover around \$1.1 million instead of the \$1.5 million.

The long and short of it is they are anticipating a minor rate adjustment of .04% for the next fiscal year. Chris said they tried to target what they call a Revenue Neutral Rate Adjustment where the average customer wouldn't see a change on their bill. They do want to adjust some of the rate components: the monthly customer charge, the energy charge, and the KW demand charge where appropriate.

Chris said that moving forward, the model assumes we will continue to use the PCA and make the small, minor base rate adjustments. Chris said in the model they put a placeholder of a minor rate adjustment for this year, and estimated 2.2% rate adjustments each year to try keep up with general inflation.

Chris talked about the Electric Rate Design. He explained that they listed each of our main rate classes or customer groupings which are residential, commercial customers by single phase or 3-phase customer broken down by transformer size, agricultural/irrigation, and commercial TOU (time of use). They also listed the average kilowatt usage by customer grouping so we can get an idea of how much energy they are using on average.

Chris said they looked at each grouping of customers average bill which includes the fixed base rate and kilowatt hour usage, then compare the current rates to the recommended rates to see the billing impact and how much the customer's bill would change.

Chris then went through each customer grouping billing components. The residential customer base charge is currently charged \$17.92 per month, and just over 9 cents per KWH plus the new PCA (Power Cost Adjustment). In general, what he tried to do is slowly increase the customers fixed charge and at the same time take it out of the KW charge which will be zero impact to the customer. The hope is eventually to bring the fixed cost up enough to help cover more of the city's fixed costs, and reduce the dependency on the KHW cost so we can try to make that more just power supply with the PCA.

Chris then talked about the residential demand charge. He said all the other regular rate classes have the monthly customer charge, the KWH energy charge and a KWH demand charge. The only regular class that does not have the KWH demand charge is residential. He said if we are willing and able to introduce the KWH demand charge to residential customers, they recommend for next year keep the monthly charge of \$18.95, and introduce a 50 cents per KWH demand charge. By doing that it would reduce the effective KWH charge to just over 8.9 cents. He said what they are trying to do is eventually through the customer charge slowly increasing, and in terms of introducing a demand charge and slowly increasing that to an appropriate level over time, is recover the city's fixed costs through a combination of these charges and making the KWH more power supply.

Dan asked if the demand charge will help with EV charging. Chris explained that the demand charge is not geared just toward customers who charge EV, but it does help make that situation much fairer. In other words, if a customer puts in an EV charger at their home, that will typically increase their demands they put on our system and would usually require the city to install larger transformers, poles, service drops and service size. This is one reason, in method, to fairly recoup and charge those customers that increase their household loads or demands. EV charging is a good example of that. As an example, the average residential customer who does not have an EV charger or solar, places about a 4 KW demand on our system every month. That's the type of service they require from us in terms of transformer sizing, service levels, service drops. Most of the household EV charging stations are peaking at anywhere from 10-20 KW, so if one customer has one level 2 charger it will peak out at the typical 20 KW, and all of the sudden that one household will likely peak out at around 24 KW each month instead of 4 KW, which they are essentially taking as much distribution, infrastructure and demand that 5 typical households use to put on the system. This is only one example why the residential demand charge makes sense and is completely fair.

Chris said another example is if a residential customer puts 4 KW solar on their rooftop. Solar without batteries is only producing when the peak sun is shining, so typical solar production is peaking midday usually around 1:00 to 2:00 p.m.; most residential customers use the most energy in the morning and evening when the solar is not producing. Even when a customer puts solar on their roof, maybe even equivalent to their peak load demand, all they are really doing is avoiding buying KWH from the city.

Dan Jessen left the meeting at 6:10 p.m.

Jeremy said he likes the idea of the demand charge especially for EV and solar. He said he thinks our metering and billing system can handle this just fine the way we are set up now. We have current residential meters that are on commercial customers that do read demand so the reading is not a problem.

Chris said he thinks by starting small and slow it should be a minimal impact on everyone; the average customer shouldn't even see a blip in their bill. This will allow us to prepare to up that appropriately over the next 3-5 years to get to a place where it's fair and equitable to everybody.

Chris went through the trend in the recommended rate for Commercial. He said they all follow the same method, except each one has their own unique slight difference in the customer charge. In general, you differentiate between 3-phase in terms of the size of the transformer, and also in terms of how it serviced, is it overhead or underground. He said they are recommending charging the overhead service \$30 a month, and the underground around \$53 a month because the infrastructure and ongoing maintenance and/or replacement is more expensive than an overhead service.

Chris then talked about the larger size Commercial 3-phase with the 300 and 500 service level transformer sizing. The only difference is they have an incremental bump in the recommended customer charge and a slightly different and higher than the smaller service levels. Then jumping up to the 500 underground service, they recommended increasing the monthly charge

from \$82.95 to \$98 and following the same methodology as the others by slightly increasing the demand charge and slightly decreasing the energy charge and identifying the PCA moving forward.

Chris said Agriculture is a bit unique in that they have a significant discounted KWH rate than the rest of our customers. Most of the other customers are in the 9 to mid-10 cent KWH for the energy and agriculture is only at 5.5 cents. This was one of the customer groupings that suggested the need for the highest rate increase of all our customers. Chris said he didn't want to shock them either so he gave them a small bump in the customer charge, the same small bump in the demand charge, but he held the energy charge; he didn't decrease it like the other customers. Jeremy said we only have 2 Agriculture customers. There was a discussion why Agriculture has a lower rate.

The last customer group Chris talked about was the Commercial TOU (time of use) which only has one customer. Their recommendation is to increase the \$83 monthly base charge to \$99, incrementing their demand charge up to \$4.30 from \$3.59, apply the PCA as it evolves and as a result, we are able to slightly drop both their on-peak and off-peak KWH rate.

Jeremy said he would like to verify the annual Commercial TOU revenue. With that just being one customer, who is also one of our largest customers, he would like to verify the dollars because it seemed high to him. Chris said that is a complex customer in our billing system; we bill them on 2 different billing codes. Chris shows about \$100,000 year, but they can check it. He said their daytime annual KWH is about 550,000, and their night time energy is about 205,000. Their demand is right around 246 KW a month.

Chris said all he wanted to go through tonight was the financial snapshot and review the recommended rates. He asked if the committee had any other discussions or thoughts. Jeremy said there is a lot that goes into the study and he is confident in the numbers based on what information was provided to Chris and what he put into the model. Jeremy said he likes the numbers as far as the demand and KWH. He also likes how it goes into the future about 5 years so that we can just pass this through City Council and implement it every year based off the study and keep our revenues where we want them and not have to take it to City Council each year. Jeremy and Chris will update the main numbers and fine tune the new rates each year; as long as we are within the 2.2% that was approved it wouldn't need to go back to City Council every year.

Jeremy asked the committee if they wanted Chris to present a condensed version of the Power Rate Study to the City Council and let them know that the Power Board supports it. Chris will present this to the City Council.

Chris ended the Zoom call.

Sharon and Jared thought it would be a good idea to have the average KWH as a dollar amount in the presentation to the City Council. There was a discussion about how much of the budgeted amount can be made up with this rate study.

Jeremy asked the board what their thoughts are on the residential demand. It was discussed that the residential demand rate is the only fair way to bill so people that use more energy to charge their EV's will be paying for it and not everyone else paying for their usage. If customer's try to conserve, it will make their demand charge lower.

Jared talked about the agriculture (irrigation). He asked why they are only paying half of what everyone else is paying. Jeremy said he didn't know what originated the pumpers rate or the irrigation rate, but it's been in place for a long time. There was a discussion about Lyle Barton's pivots. Jeremy said one thing that conflicts that is the city is trying to buy the power line to TA from Rocky Mountain Power and there is one well that the Mitchell's own. RMP has agreed to sell us the infrastructure to get across the freeway but Jeremy said he has been talking to Harold Mitchell and asked if the city could offer him the same lower pumper rate. Jeremy has a concern with offering that rate for 10 years. He said that trying to get the Mitchell service is another conflict in the agriculture rate.

UAMPS UPDATE – Jeremy Franklin said they had an IPP interim meeting yesterday. They talked about calling back from winter. The problem is the winter months will be low coal inventory because we are trying to save for summer, and we still have to pay fixed costs. If we call back the call back will be around the mid \$80/MW range. Right now, the market prices are looking better than that, so UAMPS recommendation is do not call back. Jeremy handed out a spreadsheet of future power market. He said if we call back IPP October through March, there are quite a few months we would be losing money. Jeremy said he has elected to not callback for March.

Jeremy said UAMPS has another project they are looking at called Sunny Side that is in Carbon County. It is a waste coal plant that is basically stationed on a coal wash area. Rocky Mountain Power has been taking the power output, and their contracts ends the end of May or June so UAMPS has contacted them to see if we can do a Power Purchase Agreement. It is a 3-year term with an option of extending it 2 years, so a 5-year term. They are still working through the Power Purchase Agreement, but they are thinking a price in the low to mid 70's; we're hoping 70 to 72. Jeremy said he signed up for 250 KW so that when Hunter is not on it will help us be a little more diversified. The total plant output is 50 megawatts. The PPA is supposed to be at a 90% capacity factor, and if they don't run at 90% then UAMPS can impute liquidated damage and still be made whole financially. Jeremy said we are still waiting for the PPA to be finalized; once it's finalized, we have to take it to City Council.

Jeremy said he has the APPA Conference in Seattle next week. He said market prices are looking good right now. Jeremy said the nice thing with Hunter now is we know about the coal situation and what we have on the ground and what inventory we have; they are basically saying that if market prices hit \$77, we will run Hunter. He said having that option to watch market then run it, it should hopefully help our UAMPS bill be more consistent. He said he thinks things are looking up, but last month's bill was still \$140,000.

OTHER BUSINESS: Jeremy said he talked to Jeff Robison about being on the Power Board. Jeff said he would like to be on the Power Board. We need someone to replace Kyle Hansen because he is moving back to Nevada.

Jared Burton motioned to recommend Jeff Robison to the Mayor to be a member of the Power Board. Matt Gale seconded the motion. All members voted in favor of the motion. The motion carried.

STAFF & MEMBER COMMENTS: None.

PUBLIC COMMENTS: None.

ADJOURN: Matt Gale made a motion to adjourn the meeting. Greg Evans seconded the motion. All members present voted in favor of adjournment. The meeting adjourned at 7:00 p.m.

Minutes Approved at August 23, 2023 Meeting



Jared Burton, Committee Chair



Stacy Gale, Secretary