MURRAY
CITY COUNCIL

MURRAY CITY MUNICIPAL COUNCIL
COMMITTEE OF THE WHOLE

The Murray City Municipal Council met as a Committee of the Whole on Tuesday June 7, 2016, the Murray City Center, Conference Room #107, 5025 South State Street, Murray Utah.

Council Members in Attendance:

Blair Camp, Chair	District #2
Diane Turner, Vice-Chair	District #4
Dave Nicponski	District #1
Jim Brass	District #3
Brett Hales	District #5

Excused:

Mayor Eyre

Others in Attendance:

Jan Wells	Chief Admin. Officer	Jan Lopez	Council Administrator
Janet Towers	Exec. Asst. to the Mayor	Frank Nakamura	City Attorney
Pattie Johnson	Council Office	Jennifer Kennedy	Recorder
Blaine Haacke	Power General Manager	Bruce Turner	Power
Dave Berg	MPLS, MN	Greg Bellon	Power
Jennifer Brass	Resident	Matt Young	Power
Justin Zollinger	Finance Director	Doug Hill	Public Services Director
Charles Turner	Resident	Sally Hoffelmeyer Katz	Resident

Mr. Camp called the Committee of the Whole meeting to order at 5:30 p.m. and welcomed those in attendance.

1. Approval of Minutes

Mr. Camp asked for corrections and approval on the minutes from May 3, 2016. Mr. Hales moved approval. Mr. Brass seconded the motion. All were in favor.

2. Business Items

2.1 Power Department Cost-of-Service Study – Blaine Haacke presenting.

Mr. Dave Berg, of Berg Consulting, from Minneapolis, Minnesota was introduced. Mr. Haacke was impressed with his credentials and since the beginning of the year, the city had contracted with him to conduct a cost of service study. Most of the data distributed and exchanged with Mr. Berg came from Mr. Bellon and Mr. Young in the power department and he appreciated their involvement in the study. The completed study was in draft form and a final report was expected in the near future.

A meeting with Mr. Camp, some city staff and Mr. Berg had taken place detailing solar rates and how Murray City rates are affected by solar heating. As a result, layers of calculations had been examined by Mr. Berg who was invited to share the findings in summary form and discuss roof top solar. Mr. Haacke would return to the council at a later date with roof top solar rates and provide further details.

Mr. Berg reported his 32 years of experience and broad background in utilities and stated he currently specializes in analyzing rates for electric, natural gas, water and waste water. In addition, for the last 15 years he has been teaching a course on how to examine electric rates, on a cost of service study for rate design, which was his primary focus.

Over the course of the study there were primarily two pieces of analysis: 1) Examine overall need for revenues, as to whether a general increase in revenue is required in utilities as a whole, 2) The cost of service analysis, examining the actual cost to service various types of customers. For example, residential customers versus small commercial customers, versus large commercial versus industrial customers. The overall idea was to determine whether subsidies exist. The cost of service by definition would reflect that some customers are not paying their fair share, and compare the cost to service, to the revenue received from that group.

Also, the output of the cost of service study lends itself to examining roof top solar options and determine what direction the city would take in relationship to roof top solar heating and net metering issues.

Regarding revenue basis, the good news was the city would not need an overall increase in revenues or a general rate increase. Because Murray Power Department was utilizing reserves to pay off debt, he examined future years, as far out as 2020, and based on his analysis, reserve levels would continue to rebuild again and would be satisfactory without an increase in revenue in over the next 5 years. From that perspective the city is in great shape.

Relative to the cost of service analysis and looking at the various customers, he discovered one basic potential subsidy occurring amongst those classes. The information was consistent with the previous rate increases in the past, which was conducted by another firm. His findings were that small and larger commercial service customers are basically subsidizing residential customers and are essentially paying a bit more than the cost of service would indicate they should be paying.

One of his report recommendations stated, the ideal time to address those types of subsidies was favorable when additional revenue was not needed. The fact that Murray utility does not need an overall additional increase in revenue, would mean there was not a more perfect time,

if the council should choose. For instance, if a certain class of customers' like residential, needed an increase, and another class like commercial service rates needed to decrease, and if not combined with the need for an overall increase in revenue, one of those classes could avoid a double increase. Raising fees either way would not be popular,

Once the report was finalized, options would be provided for implementing rate adjustments. Within the residential class, an increase could occur for the fixed monthly customer. Murray has an extremely low rate of $3.35, one of the lowest rates in the country. Mr. Berg explained that any increase in residential, with his recommendations would come through as a slight increase in the customer charge. A decrease for commercial service would come through on the energy rates or consumption rates and those rates would come down slightly. The council would make those decisions at some point once the report was final. He reiterated it was the perfect time to address subsidies.

Mr. Nicponski inquired the main reason why the city would want to follow these recommendations. Mr. Berg stated the rates and cost of service recommendations are to make costs fair. Theoretically, different kinds of customers should be paying the cost to serve them, another customer shouldn't be overpaying in order for someone else to have a reduced price. In other words, businesses are paying more than their fair share and residents are paying much less. Should the council decide this was policy, this would be acceptable, which is within their purview. Mr. Berg said he was making recommendations on a cost basis. The fixed cost of serving a residential customer is much higher than $3.35 per month. Working predominantly for public power utilities, he reported lots of subsidies exist and many cities decide to allow them. Ultimately, after providing the results, decisions would be up to the governing body.

Ms. Turner asked if he could provide a comparison of customer charges. Mr. Berg stated what he encounters, on a national basis, costs range anywhere from Murray City's $3.35, to a high of $42 per month. However, on average costs were from $9 to $15 per month. Utah rates were much lower than the average elsewhere.

Mr. Camp stated Rocky Mountain Power's (RMP) rates were currently $6 per month. Mr. Berg reported at his personal home in Minnesota, he was paying $9 and $10, which was a common average. In general, when compared to RMP, Murray was lower on residential and a little bit higher on the commercial service, which was also in line with his findings.

Included in the cost of service was one very large customer, which was considered the ultra large commercial service; they were paying what they should be and no changes were recommended for that class of service.

There was significant activity regarding net metering, distributed generation on roof top solar, which was obviously a hot topic in the nation. He explained net metering as a situation, where a customer was generating power from their home with roof top solar. This would occur during daytime hours and not nighttime. If the customer was over generating in the daytime, significantly more than what was actually being utilized during that instant, power would essentially be exported to the system. The customer would be getting paid full retail rates for the energy sent out to the system during the day, and displaced energy would result in a full credit to pay for energy needed during the night when solar was not working. One thing that has always been accepted in net metering was the existence of subsides. Think about a customer who has solar on their roof top, if they generate exactly the amount of kilowatt hours used in a month, their bill would be essentially zero. The cost to utilize the system was not zero while utilizing energy from the system at night; even a local basis of substation and lines,

transformers and service drops, meter installation and all aspects of getting power to the home, the solar customer is utilizing the system. The idea and questions related are, what some possible rate solutions might be, in order to adjust that subsidy. The cost of solar has seen a dramatic reduction in the last five years and when net metering was invented, the cost of solar was very high, even with net metering and with tax incentives, many people did not install solar because it did not pay for itself. However, now with the reduced cost of purchasing, and due to those existing tax incentives and net metering, the payback period is very reasonable; more people are installing solar.

Murray City currently conducts classic net metering for approximately 70 solar customers that are on the system. Mr. Berg is working with other UAMPS members, such as, Lehi, Brigham City and Payson, as well as, all six UMPA members; the two largest being Provo City and Spanish Fork, all of which, were interested in same issue and are being handled in the same manner as Murray. He has suggested that within the state of Utah, if all municipals approach this in the same way, it might help everyone on a political basis, as well as, acceptance. Suggested options are:

1) Increase the customer monthly charge from $3.35 to $20.68. This is based on analysis conducted for a solar customer with net metering, including local infrastructure costs for them to be attached to the system.

2) Move to a completely different type of a rate. Currently large customers are billed for demand and energy, in addition to a customer charge. Whereas, residential and small commercial businesses are billed for customer charges only at an energy rate. A demand is still being placed on the system by solar customers, during evenings when the sun is still shining, but solar output is reduced. By moving the rate type, customers would pay the demand charge for the maximum use and would only get the credit for the energy portion, which would now be a lower number. Mr. Haacke was given a letter containing the suggested rate change amount option.

3) Creating a system access fee. Several other cities have adopted this fee. If a customer installs a 5 kW system, a monthly fee would be charged based on the size of their system, essentially by attaching to the local system a cost would be required. An access fee of $2.71 per kW each month was suggested.

   Mr. Brass asked could calculations be reviewed after the final report was submitted, regarding how the math was created. Mr. Berg explained there was a very detailed theory behind the suggested totals. He did not have the exact details with him but could further explain the calculations. Mr. Haacke agreed the cost of service study was very detailed; the solar letter he had received from Mr. Berg had the background information and he would make it available to the council.

4) A minimum bill provision. Under minimum bill provision, a higher customer charge would be applied. A minimum bill of $20.68 would occur, even if the customer's net usage, as a solar generator, was at zero.

5) A feed-in tariff. During periods of over generating, generally during summer months and when exporting to the system, all credit given would only be the wholesale power portion of the rate, not full retail rate, which was currently $5.71 for the average allocated wholesale power costs in the residential class.

There are pluses and minuses to each of the options and cost based theories back up each one. To a certain extent it becomes a policy decision, as well as, a cost basis. These were Mr. Berg's recommendations; he was willing to stay engaged with the council to assist during the decision process and stated all Utah municipals would be dealing with the issues and decisions at hand. In Utah, the net metering legislation is not applicable to municipals, therefore, the city has leeway on decisions. In the vast majority of the states, required net metering legislation is applicable to all utilities. For instance, in Minnesota the municipals are required to give standard net metering the way Murray City currently does.

Mr. Brass stated he owns a 4.8 kW solar system. The city had placed equipment on his house in order to utilize it as a test bed and attain the reality of the issues. Approximately a years' worth of data was available for analysis. He noted a group of individuals, who are pushing for solar and renewable energy are saying all this power is distributed generation and would offset the need for utilities to buy energy. Currently, most of the energy produced in Utah is coal fired. What Murray is doing could be perceived by this group as making it difficult for the solar industry. It's hard to take back solar right now. Rates are really low within the state of Utah. A huge monthly fee, coupled with our own winter months and our usual inversions, the increase probably becomes difficult for solar. Mr. Brass liked the wholesale idea and felt it was fair to pay the overage at the wholesale rate. He noted the fact that his system was considered disruptive to the distribution system. The drop off and lead back in, throws a lot of garbage into the distribution system, so we are seeing cities having to add regulation capacitors and a lot of equipment to prevent solar from causing harm to downstream equipment, as seen frequently in California. He explained, if there was a bad day with sun you are going to draw the grid down. This would need to be explained to our customers too. He understands the cost he is creating with his solar system, however, solar users have an expectation in return on the investment. Mr. Berg agreed with Mr. Brass and noted he had spoken at a number of conferences related to the issue and had been accused of being anti-solar in his findings. His response would be, he is pro cost and what he analyzes is cost of service.

The industry is experiencing saturation in some areas. Nevada and Hawaii have reached a high saturation level. From an operational perspective and from a subsidy standpoint, two to three solar facilities are not significant, however, if you suddenly have 5,000 solar users, where would those subsidies come from, he asked. From a cost perspective saturation cannot be disputed.

Mr. Berg concluded the industry was wrestling with many issues, environmental aspects, public relations, societal and class are all important aspects to consider.

Mr. Haacke felt Mr. Berg stated the situation well and agreed, the occurrence of subsidization must be addressed. With many working parts and overall fairness, it is an issue the city ultimately has to face. Whether Murray joins other Utahans, finds resolve on its own, or waits until RMP makes a decision, it is a big issue that has been on his mind and his coworkers' for years.

Distributed generation and how it should be dealt with would be discussed at APPA conferences. He believed the cost of service study would help the city analyze the numbers and he would return to the council again for further discussions.

Mr. Brass inquired if demographics had been taken into account because the city is aging and many residents are on fixed incomes. Utah has one of the lowest minimum wage rates in the country, and many are working for minimum wage.

Mr. Berg explained his analysis was based on cost of service examination only; demographics of residents had no impact on the cost to serve. However, discussions on the subject had occurred for a number of years. Mr. Berg described his own mother, who is an 87 year old widow and only uses 300 kW hours per month. Every electric company serves a residential customer just like her, customers on low fixed incomes, low usage and affordability factors, which was where a lot of the decisions are made in rate design. This was why cost based rates were not implanted right up and down the line because of many other things to consider, such as, economic development and conservation.

All of these elements enter into how and what the city should do with rates. Mr. Berg expressed, from a solar perspective, should his elderly mother be subsidizing solar. Mr. Brass added that if Murray adds a $20 monthly charge because you have solar, it will need to be justified, as well as, raising the monthly fee for everybody. He reminded the group there was a room full of citizens due to an increase of 85 cents for garbage.

Ms. Turner stated the importance of encouraging solar and realized there was a cost to having it; finding justification and a balance would be essential if rates should be raised or if a new rate needed to be initiated. Mr. Berg agreed that different rates move in different ways, for instance, Austin, Texas, a very pro-environment city, had gone out of its way to institute a value of solar tariff that was higher than retail rates. The council's decisions are related to what was important to their constituents and the direction they want their utility to go. Mr. Berg reiterated, he makes all of his recommendations on a cost basis with full understanding that he is rarely listened to.

Mr. Camp stated it was extremely helpful for him to have all of the background information provided by Mr. Berg before the report would be presented. The council would certainly give it much thought and consideration before making decisions.

Mr. Haacke noted some of the council members would be hearing more on the subject at the upcoming APPA conference.

Mr. Berg stated he would be returning to Utah several times over the summer and would continue conversations with Murray staff. Mr. Camp thanked Mr. Berg for his detailed and informative findings.

2.1 Power Department Quarterly Report – Blaine Haacke presenting.

Mr. Haacke would continue to meet with Mayor Eyre and Mr. Camp on a monthly basis in the Mayor Utility Electrical Council (MUEC) meetings. Many issues are discussed, including employee morale, Intermountain Power Agency (IPA), Utah Associated Municipal Power Systems (UAMPS), and rate design. He commended Ms. Towers for capturing the flavor of their discussions in her minutes.

Mr. Haacke informed the council of employee, JR Blazzard, who won first place in a tree climbing contest a couple years earlier. He takes the sport very seriously and climbs year round to keep up on his abilities and hobby. Recently, he took second place in a contest in the east, he took first place at a bigger event in American Fork, second place in the Master Challenge and first place in ariel rescue. After taking second place overall in the state, Mr. Haacke felt accolades were due Mr. Blazzard. In addition John Johnson participates in these events.

Mr. Haacke reported the power department had completely paid off its debit as of June 1, 2016. Mr. Zollinger explained over the last four years the city had paid off $18.4 million, providing a

savings of over $1.6 million in interest, an amazing accomplishment. The power bond was paid off five years early. Reserves remain at $10 million, which is 27% of the annual operating budget. The City is in great shape and reserves will continue to grow for potential future projects.

Mr. Haacke recalled the lean times during 2007-2009 with very little outgoing capital, however, the last few years provided a perfect situation with lots of revenue and purchasing power on spot market for $27 per MW hour, the same price as federal hydro. The spot market has gone as high as $200 per MW. Natural gas is approximately $2 a dekatherm, and had been as high as $12 at one time.

Mr. Brass commented about the importance of not getting accustomed to a perfect situation and pointed out the city of Vernal, as an example of going from a boom economy to a complete bust. Mr. Haacke replied they intend to maintain the conservative nature of the department when calculating the budget. Mr. Bellon keeps in great communication with Mr. Zollinger and the department remains in the five cent kW hour range for energy from UAMPS, but acquires it for three cents per kW; this is 40% less than what is budgeted providing a great buffer.

Mr. Zollinger confirmed a buffer was occurring on the revenue side, as well as, the expense side after Mr. Bellon increased some of the line items in the power department's budget. Also, an early retirement program and department restructure provided significant savings, since some positions were not filled again.

Mr. Haacke confirmed and commended employees for great teamwork, and for picking up the slack after early retirements occurred.

Due to current purchasing costs of energy at $30 per megawatt hour, the optional six month call back, a seasonal resource, would not be needed from IPA between the months of October 2016 until March 2017. It had been seven to eight years since there was a need to call power back. On the other hand, it remains appealing because it is available when needed.

During a MUEC meeting, Mr. Camp asked about the cycling of the IPA plant. As renewables come on and the Milford Wind Farm or other resources come on, there are only so many kW hours needed for distributed to customers, therefore, usually it is the coal fire plant that is governed down. Recent discoveries indicate the IPA plant has only been at 55-60% load, which also justifies the reason the city would not call power back for itself.

The question was asked why the coal fired plant was backed down so much. Mr. Haccke explained, part of the reason was due to wind generation going to Southern California and Beaver, Utah from the Milford Wind Farm. The bigger reason for cycling down is a California carbon tax for anything generated from a non-clean resource, which adds a $33 surcharge on every kW hour. The surcharge applies only to California so far. As a result, the $60 resource at IPA becomes a $93 resource as it arrives in California, as opposed to a $5 fee for natural gas. However, all costs remain the same at the plant: the debt, salaries, administrative fees and various coal contracts still have to be paid. California is changing the entire energy market by how they operate. It may seem disappointing in a way, because IPA remains a very clean plant, within the region, however, cycling down will be the end of it, he said.

A recent outage in the city was addressed by Mr. Haacke, who commended the department. What was thought to be caused by a wind storm, was actually an impaired citizen who hit a pole with enough speed to knock out two others near 500 West and 4300 South. No injuries were

reported, however it caused a 12 hour outage. Three poles were replaced along with all lines on the poles, including Century Link and UTOPIA wires. Affecting 800 to 1000 residents and businesses, 80% of the circuit was back within the first 90 minutes. After 14 hours of straight work, the rest of the area was restored by 8:00 a.m. the next morning. He appreciated the sacrifice employees made to get the job done well.

Mr. Camp inquired if an insurance claim was filed due to the incident. Mr. Haacke replied a claim was filed and the police department and Mr. Knight were handling the situation.

Mr. Haccke referenced the second renewal contracts at the IPA plant and stated everything was on hold. All Utahans had passed the second renewal, along with the Murray Council, although, currently, California entities are stalled with the California Air Board. The councils will not give their cities approval to sign the renewal contracts and the California Energy Commission, (CEC) won't give approvals to the councils. The hope is for a decision within three weeks.

Dairy cow issues were addressed briefly regarding stray voltage. Two years after a mistrial, a new trial date is expected on March 30, 2017; the trial could last 30 days, which included the same witnesses, arguments, disclosures and judge. Held in Nephi, more evidence could be allowed this time, which was not included in the first trial. Evidence indicates voltage disturbances were still found even when the plant was at zero. Samples taken when the plant was down for maintenance years ago were calculated 1, 5, and 10 miles out when no generation was coming from the plant. Those voltage samples were not allowed as evidence by the court during the first trial. It was thought voltage was localized and not coming from the plant. Hopefully, the evidence would be included this time. Mr. Haccke would keep the council informed on the outcome.

Mr. Camp thanked Mr. Haacke again for paying off the bond and for providing great information to the council.

3. Announcements: Ms. Lopez made the following announcements:

- Decisions for the Fourth of July parade regarding vehicles would need to be made. Ms. Lopez was waiting to hear back from various dealerships. Additional suggestions and thoughts were requested.

- A golf tournament would be held June 8, 2016, with breakfast included at 8:45 a.m., tee-off at 9:30 a.m. and lunch at 11:30.

4. Adjournment: 6:25 p.m.

Pattie Johnson
Council Office Administrator II