

# HERMISTON CITY COUNCIL

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Work Session

October 12, 2020

Mayor Drotzmann called the work session meeting to order at 6:00pm. Present were Councilors Hardin, Gutierrez, Myers, Primmer, Davis, McCarthy, and Barron. Staff members in attendance were City Manager Byron Smith, City Attorney Gary Luisi, Chief Edmiston, Hermiston Energy Services General Manager Nate Rivera, and City Recorder Lilly Alarcon-Strong.

## **Hermiston Energy Service (HES) Update**

HES General Manager Nate Rivera gave information and updated the Council on: The creation of HES; how COVID-19 has impacted electric services, specifically those who have not been able to pay their bills due to COVID related issues; available financial resources to help those who are in arrears, and how those resources are being made available to the public, ie: online, social media, in mailings with bills, etc; collection policies and having consumers who are in arrears pay those collection costs; Cost of Service Analysis (COSA) rate schedule; Rate Model Goals to make sure that rates are reasonably set and established rates are paying for the costs of doing business; previous rate increases; Bonneville Power Administration (BPA) rate increases that drives HES costs; needed rate increase of 12.9% which would impact an average residential customers bill from \$111.00 to \$121.00 per month and how best to roll this out, if the Council approves the increase in order to circumvent a projected revenue deficit of over \$1 million.

City Manager Byron Smith stated the City realizes that this rate increase discussion comes at a difficult time, however, this discussion was originally slated for March but the City was waiting, and hoping, that the COVID impact would have ended or decreased by the end of the year, unfortunately this has not been the case. Regardless, this discussion needs to happen as HES has been using its reserves.

The Council discussed the rate increase proposal and what they thought would be best not only for HES and the City, but also being sensitive to consumers and the current COVID issues. After some discussion, the Council asked that HES General Manager, Nate Rivera, return showing what impact the following options will have on consumers:

- Two equal rate increases of 7% each in March and October of 2021. This would not only take HES out of the projected revenue deficit of over \$1 million, but also help with the inevitable future BPA increase as well
- One 14% increase starting in January 2021

The Council also came to the consensus of mirroring Umatilla Electrics Cooperatives (UEC) rate adjustments, as UEC adjusts rates every odd year when BPA announces their rate increases. And, although HES has the lowest rates in the regional comparison group, regardless of an increase, the Council would like Mr. Rivera to work with other programs, besides CAPECO, that helps customer not only pay their bills but also increases energy efficiency in their homes, for long term benefits, as this would be in their best interest and the City's as well.

Mayor Drotzmann adjourned the work session at 6:56pm and stated the City Council would take a short break and convene the regular City Council meeting at 7:00pm.



# ENERGY SERVICES

Council Update – October 12, 2020



# Hermiston Energy Services

- About HES
- COVID-19 Update
- Collections Policy Update
- Cost Of Service  
Analysis (COSA)



# Hermiston Energy Services

- HES is a Consumer Owned, Non-Profit Electric Municipality formed October 1, 2001 after acquiring PacifiCorp's Hermiston distribution facilities.
- HES currently serves 5,229 customer-owners, with annual sales of 110 million kilowatt-hours.
- HES's facilities consists of 36.3 miles of overhead and 19.6 miles of underground primary distribution lines.
- HES serves approximately 63% of Hermiston.



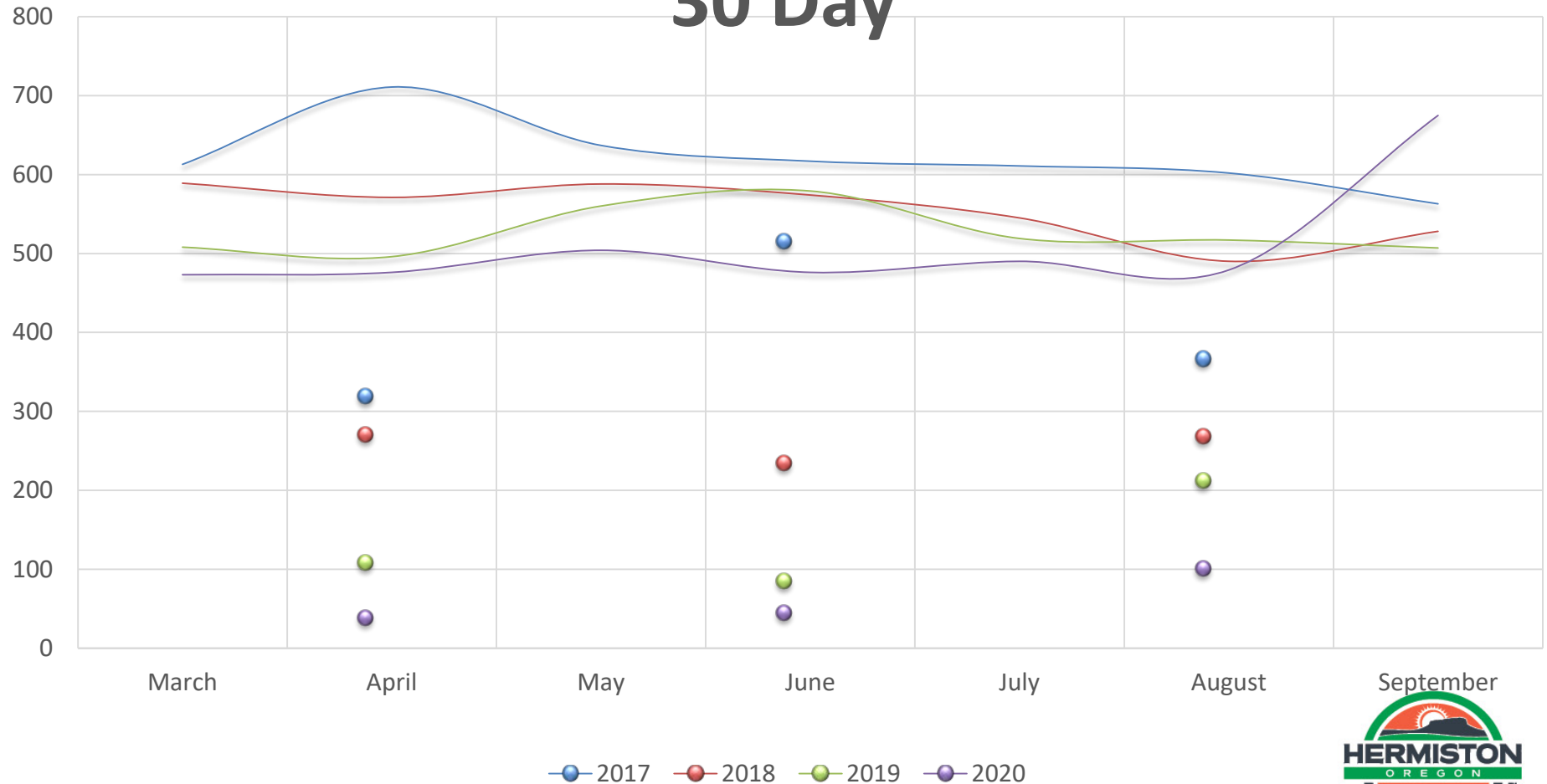
# Hermiston Energy Services

## COVID Update



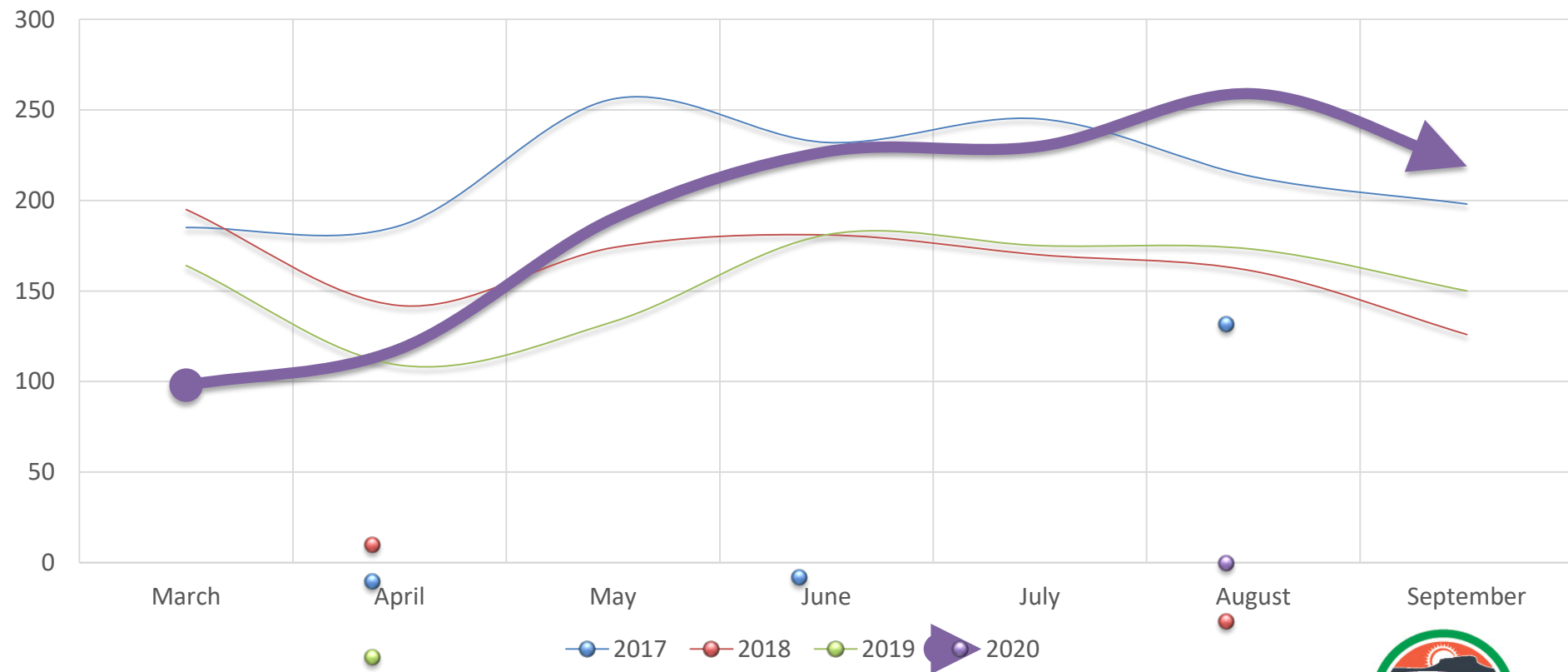
# COVID-19 Update

## 30 Day



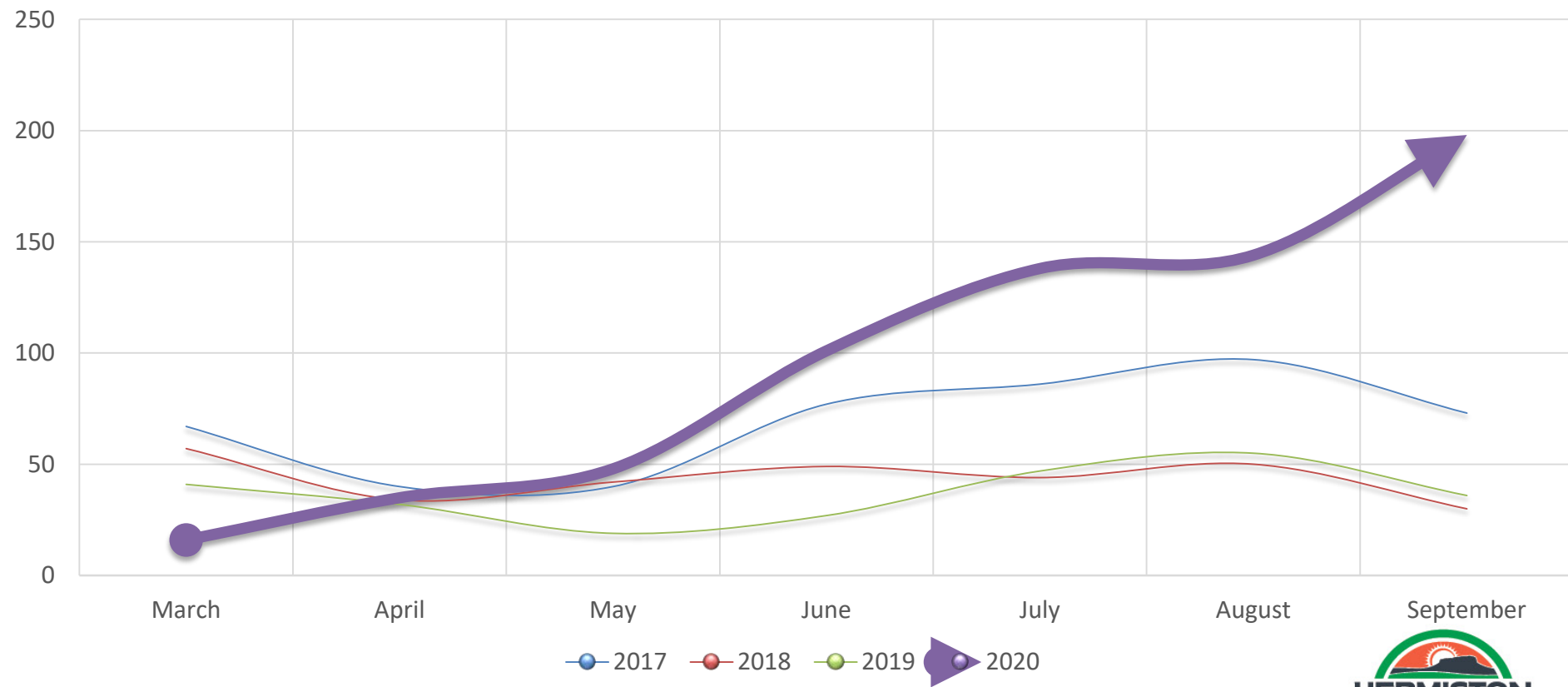
# COVID-19 Update

## 60 Day



# COVID-19 Update

## 90 Day



# COVID-19 Update

## – October 2020:

- 20% of HES Customers are in some level of non-payment.
  - Previous three-year average is 15%.
    - » Started 2020 with four-year low of 10%.
  - Current level of HES revenue exposure is 1.3% (\$127,542).
    - » Previous three-year average is \$63,940.

## – March 2020

- Stopped Disconnects for non-payment.
  - Previous three-year average was 56 per-month (1.1%).
- Working with Gov's Office to retain control of this option.
  - IOU's have committed to no non-payment disconnects through March of 2021.



# COVID-19 Update

## – HES HEAT (Hermiston Energy Assistance Team)

- Grant program intended to help low-income residents manage their heating and cooling costs.
- \$20,000.

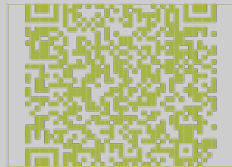
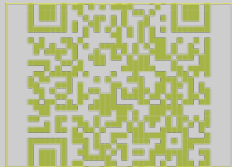
## – During the COVID-19 Pandemic:

- HEAT funds are further made available to customers due to a personal, family, medical or employment crisis or emergency.
- Funds have been supplemented with a generous \$75,000 donation from Amazon Web Services to assist residential customers.
- Additional \$25,000 HEAT Funds with COVID-19 Federal Funds





**HES's SmartHub portal allows customers to manage their account from a computer or mobile device.**



**Download today and manage your account anywhere!**

# Hermiston Energy Services

## HES Collection Policy



# Hermiston Energy Services

- HES's collection policy does not match the City's policy related to fees.
  - When HES turns over collections to third-party collection company:
    - HES receives 70% of the collected amount.
  - When City uses Third-Party Company:
    - City receives 100% of collected amount and customer pays third-party fees.

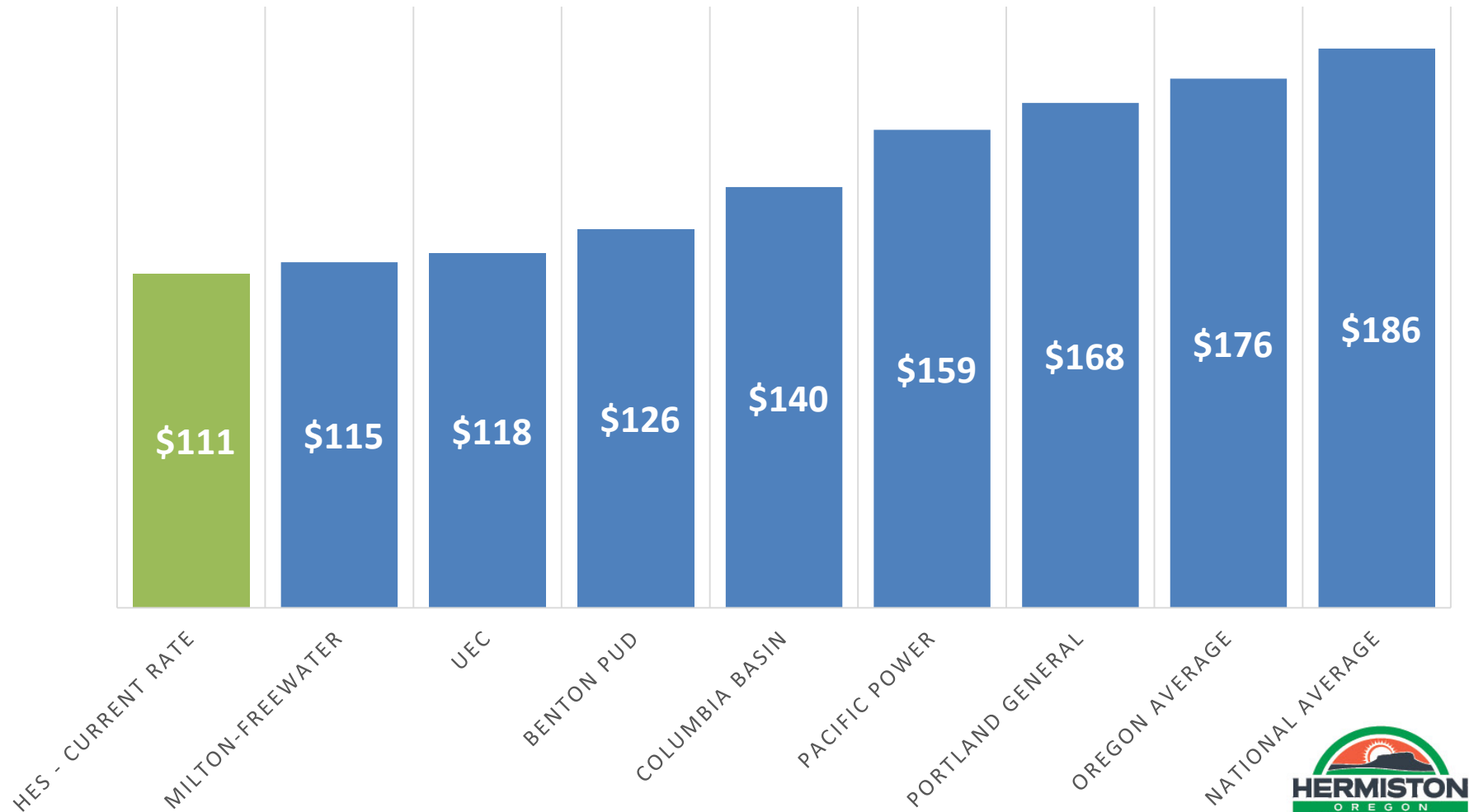


# Hermiston Energy Services

## Cost of Service Analysis (COSA) Results



# Hermiston Energy Services



\* Based on 1,400 kWh per-month



# HES's Rate Model Goals

- Ability to collect appropriate revenue.
- Rates are stable and predictable.
- Rates are equitable among customer classes.
- Rates are easy to understand and feasible for HES to implement.



# HES Rate History

- 2005:  
5% Rate Adjustment
- 2015:  
10.95% Rate Adjustment
- 2016:  
2.59% Rate Adjustment
- 2018:  
1.87% Rate Adjustment



# HES COSA Results

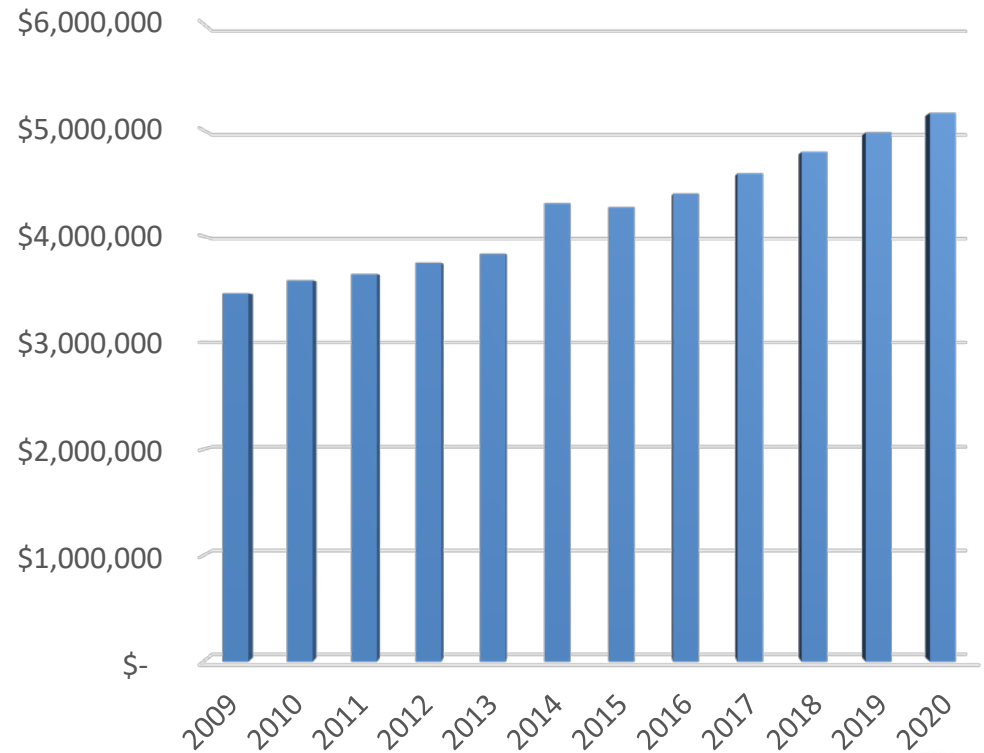
- Know and shared that current rate structure does collect retail rate revenue based on actual costs needed to serve individual customer classes.
- In FYs 2018-20, HES used \$1.5m from Bond restructure, reserves and Construction Work Plan savings to offset revenue deficiencies.
  - In 2018: 1.2m (12.7%) deficit in rate revenue.
    - Used reserves, moved all CWP & Maintenance to Dept. 33.
  - Council approved 1.87% rate adjustment in 2018.
- In FY 2020-21 HES is projected to have \$1,011,195 revenue deficiency (11.76%).
  - \$500,000 is BPA increase in Oct. 2019.
  - \$450,000 is System Maintenance/Capitol (move back from Dep 33)



# BPA 10-Year Rate Impacts

YEAR	BPA
2009	7.0%
2011	8.5%
2013	11.5%
2015	7.2%
2017	6.5%
2019	9.87%

HES Power & Transmission Purchases



# BPA 10-Year Rate Impacts

- Many uncertainties in BPA costs and revenues in the last 10 years.
- Since that time, BPA has reduced its costs, but secondary revenues have declined.
- Change in application of Low Voltage Delivery Charges to HES.
- Combination of new renewables, gas prices, and load decline.
  - Other factors:
    - RPS and State Regulations
    - Spill/ Other Environmental Costs
    - Carbon regulation
    - Technology and structural changes (e.g. Distributed Energy Resources such as solar and storage)
    - California, Oregon and Washington Factor (Politics and Market Restructuring Issues)



# HES CWP

- To reduce the revenue needs in FY's 2018, 2019 & 20, HES converted our CWP from a two-year to three-year plan.
- This recommendation was part of the plan to minimizing the impact of rate increases.



# HES CWP

HES Projects	2018-19	2019-20	2020-21
Pole Replacements (33 Fund)	\$ 333,750	\$ 203,000	-
Replace Underground Cable (33 Fund)	\$ 615,000	-	-
Overhead Reconductoring (13 Fund)	-	-	\$ 325,000
Backyard Conversion Test Site (33 Fund)	-	\$ 335,000	-
Miscellaneous Distribution (33 Fund)	\$ 443,500	\$ 443,500	-
Miscellaneous Distribution (13 Fund)	-	-	\$ 450,000
Yearly Total	\$ 1,392,250	\$ 981,500	\$ 775,000
<b>CWP Total</b>	<b>\$ 3,148,750</b>		

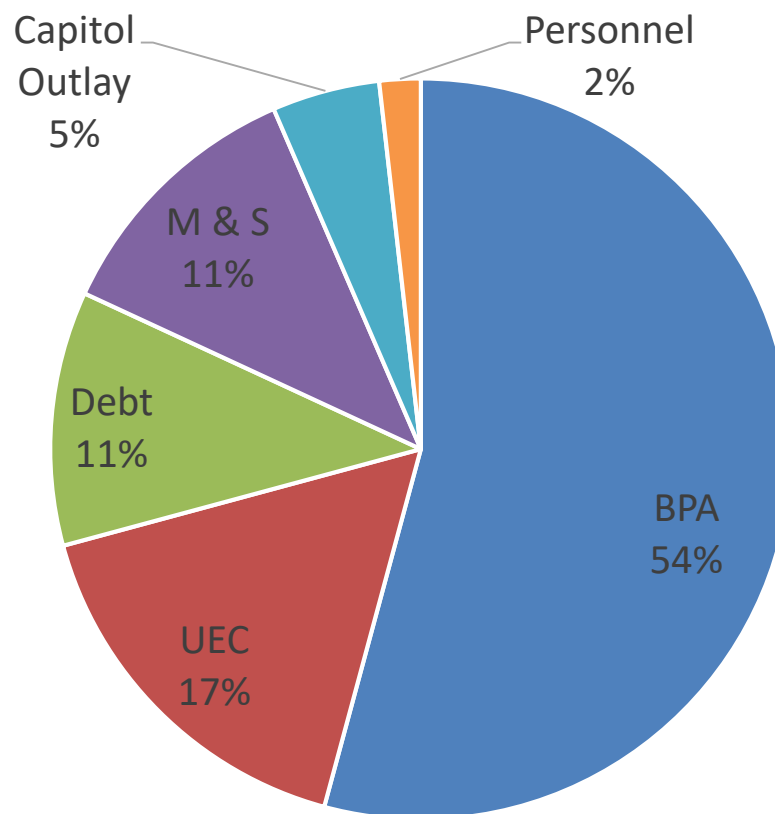
HES Funds	2018-19	2019-20	2020-21
2018-19 Budget (13 Department)	-	-	\$ 775,000
2016 Bond Funds (33 Department)	\$ 1,392,250	\$ 981,500	-
<b>Yearly Total</b>	<b>\$ 1,392,250</b>	<b>\$ 981,500</b>	<b>\$ 775,000</b>
<b>Department 33 Funds</b>	<b>\$ 2,373,750</b>		
<b>Department 13 Funds</b>			<b>\$ 775,000*</b>

# HES CWP

Miscellaneous Distribution	2018-19	2019-20	2020-21
<b>Transformers*</b>	\$ 40,000	\$ 40,000	\$ 40,000
New Member Connects / Extensions	\$ 55,000	\$ 55,000	\$ 55,000
CTs	\$ 12,000	\$ 12,000	\$ 12,000
<b>Meters*</b>	\$ 13,500	\$ 13,500	\$ 13,500
<b>Automation/Sectionalizing*</b>	\$ 25,000	\$ 25,000	\$ 25,000
<b>Capacitors*</b>	\$ 10,000	\$ 10,000	\$ 10,000
<b>System Repair/Miscellaneous*</b>	\$ 250,000	\$ 250,000	\$ 250,000
<b>Miscellaneous Plant Addition*</b>	\$ 30,000	\$ 30,000	\$ 36,500
Lights	\$ 8,000	\$ 8,000	\$ 8,000
<b>Yearly Total</b>	<b>\$ 443,500</b>	<b>\$ 443,500</b>	<b>\$ 450,000</b>
<b>Three-Year Total</b>	<b>\$ 1,337,000 from \$1,510,000</b>		

# HES Costs

- BPA Bill
  - Power & Transmission
- UEC
  - Distribution O & M, Customer Accounts & Administrative and General
- Debt
  - System Purchase in 2001 (12/32 - 9.7M)
  - CWP Bond Finance (12/36 – 4M)
- Materials & Services
  - Accounting, Insurance, Street Lights, In Lieu of Taxes, Conservation, Energy Assistance, Dues, Misc. Contracts, Office Supplies and Misc. Equipment.
- Capitol Outlay
  - Transformers, New Services, Meters, System Repair/Maintenance.
- Personnel



# HES 2020 Recommendation



**Individual Rate &  
Customer Class  
Adjustments**

**0%**

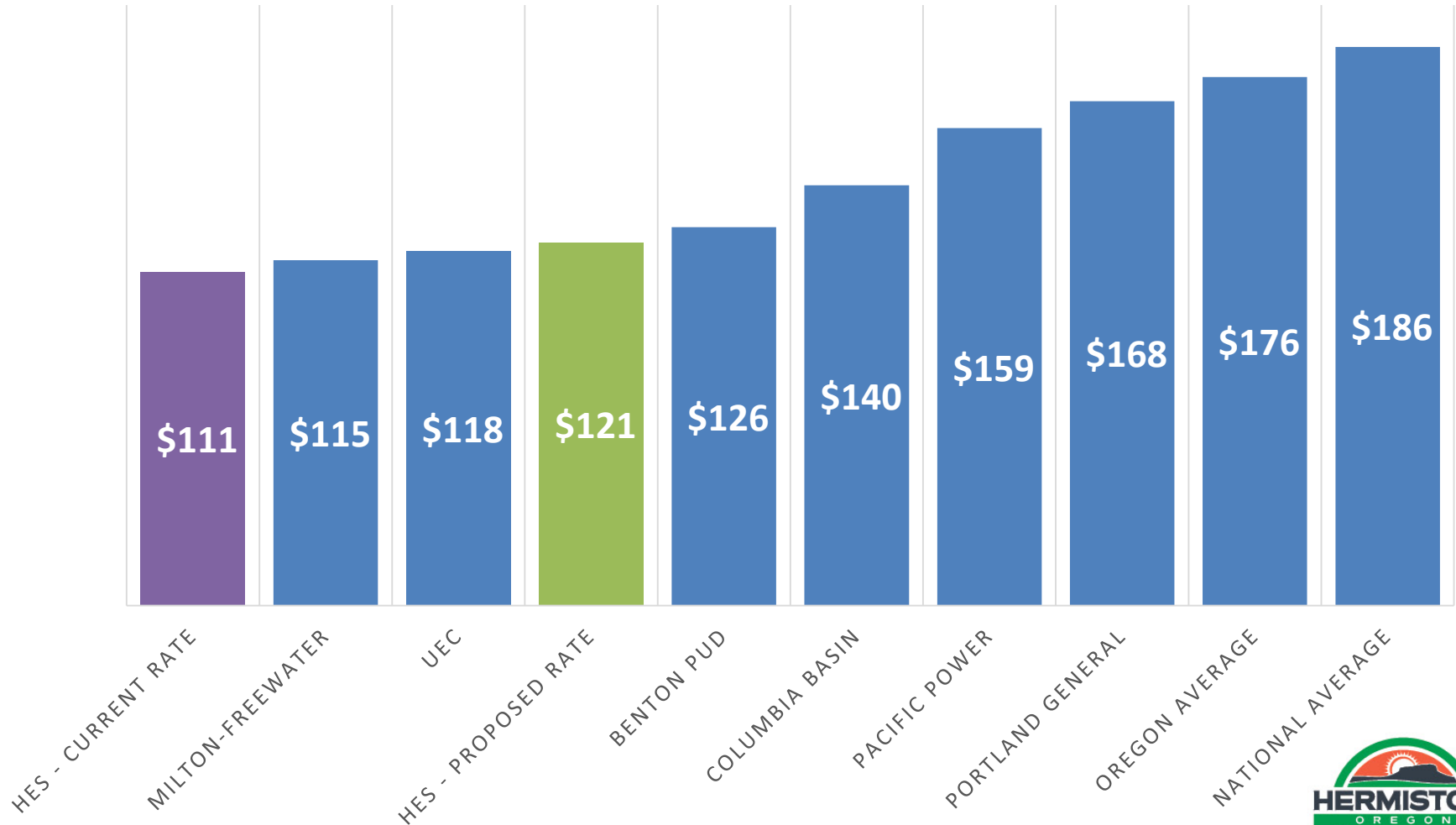


# HES Rate Discussion

- In FY 2020-21 HES is projected to have \$1,011,195 revenue deficiency.
  - 12.9% Overall rate increase gets utility to break even.
    - Includes \$450k annual maintenance.
  - Does not include:
    - 2021 BPA Rate Increase
    - Capital Improvement Projects
    - State/Federal Mandate Changes (Energy Assistance/Debt Forgiveness; Conservation/EE)
    - Contracts
    - Inflationary Costs



# HES Rate Comparison



\* Based on 1,400 kWh per-month



# HES Rate Discussion

- Options:
  - 12.9% Rate Increase 1<sup>st</sup> Quarter of 2021.
  - Split the Rate Increase.
    - Two equal rate increases in January & October of 6.4%.
    - Two rate increases in January (9%) and October (?%).
  - Other Options...





# Questions

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