

# HERMISTON CITY COUNCIL

Work Session

November 26, 2018

Mayor Drotzmann called the work session meeting to order at 6:00pm. Present were Councilors Gutierrez, Hardin, Primmer, Smith, Myers, Barron, Kirwan, and Davis. Staff members in attendance were City Manager Byron Smith, City Attorney Gary Luisi, Chief Edmiston, Mark Morgan, Mark Krawczyk, Nate Rivera, and Lilly Alarcon-Strong. Media present was Jade McDowell from East Oregonian and Michael Kane from NE Oregon Now.

## **Hermiston Energy Services (HES) Cost of Service Analysis (COSA)**

HES General Manager, Nate Rivera, gave the Council information regarding:

- The history of HES- when and why it was formed
- HES serves 63% of Hermiston with 5,229 customers
- Rate Model Goals to collect appropriate revenues that are stable, predictable and equitable among different customer classes, ie: residential, commercial, etc. and easy to understand
- Rate History adjustments- total of 3 adjustments from HES formation in 2001 through 2016
- COSA Results- Current rate structure does not have enough funds to cover costs
  - Need to restructure for 2018-2020 to offset revenue deficiency of 1.9% totaling \$157,151
- HES costs consisting of:
  - 52% = Purchasing Power from Bonneville Power Administration (BPA)- will be raised by 6.5%
  - 17% = Umatilla Electric Cooperative (UEC) Contract- will be raised by 6.5%
  - 12% = Debt Payment- will be raised by 7.7%
  - 11% = System Maintenance/Capital
- BPA 10-Year Rate Impacts
- HES System Maintenance
- 2018 Recommendation to include:
  - Customer Bills changes
  - Base Charge increase for residential, small commercial, and industrial customers (a base charge comparison chart was also reviewed in the PowerPoint Presentation)
  - 0% to 2.56% increase for kilowatt hour (kWh) used
- Currently, HES is tied in 2<sup>nd</sup> place with UEC for lowest amount of kWh charges. However, the recommendations above do not include the 2019 BPA rate increase and the 2020 construction work plan and system maintenance
- The future of energy with Community Choice Aggregation- would allow customers to select the energy provider they want. This topic is planned for discussion in 2019 by Representative Ken Helm.

The Council discussed the 3 million in savings from the previous bond, bond proceeds, concerns with annual rate increases, UEC contract, how the public would be notified, and a request to have more detailed clarification and in graph form on how this would impact customers.

City Manager Smith and Mr. Rivera stated the recommendations come, in-part, by the contracted financial advisor; however it is very clear that restructuring is needed as per the revenue deficiency. Although the increase is necessary, city staff understands this process is difficult and is therefore asking for the needed increase in smaller increments of 2% this year and perhaps next year as well, instead of maybe 5% or 6% next year. The City is only asking for what is needed based on increased demand costs from BPA changes. The UEC contract is reviewed every 5 years. Customers would be notified by means of: radio, newspaper, website, social media, and mail flyers included with bills.

The Council recognized the tremendous value the UEC Contract has supplied to HES and the City as a whole, and thanked UEC for their partnership.

# HERMISTON CITY COUNCIL

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November 26, 2018

UEC Member Services Manager, Connie Shrum, and Mr. Rivera gave information regarding the new PowerUp Prepay Services. This new service allows customers to:

- Only pay \$25.00 to start service, which will be applied to their usage, instead of having to pay a deposit of \$250.00
- Allows customers to monitor account more closely and control their usage
- No monthly bill is sent as customers pay as they use
- Gives usage alerts so customers know what is left in the account and can decide when to pay and how much to pay at any time
- No penalty, late, interest, disconnection, etc. fees and charges are applied to these accounts

Ms. Shrum stated UEC has seen many great success stories from this program as customers in arrears are able to continue service, paying when they can without penalty fees, while still being able to pay off past due balances from their previous delinquent account. Average billing is still available as well.

Mr. Rivera stated with the time restriction, he will need to return to the Council to present more information regarding 5-G updates.

Councilor Gutierrez thanked Mr. Rivera for promptly replaced street lights that were out when notified.

Councilor Primmer stated he does not want to raise rates; however, the City must be fiscally responsible.

Mayor Drotzmann ended the work session at 6:56pm. The Councilors took a short recess before the regular City Council meeting convened at 7:00pm.



# ENERGY SERVICES

Council Update – November 26, 2018





# Hermiston Energy Services

- About HES
- Cost Of Service  
Analysis (COSA)
- Pre-Pay Option
- 5-G Update



# 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.



# Cost of Service Analysis (COSA) Results



# 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





# HES COSA Results

- Current rate structure does collect retail rate revenue based on actual costs needed to serve individual customer classes.
- In FYs 2018-20, HES will use \$1.5m from Bond restructure and CWP savings to offset revenue deficiencies.
- In FY 2018-19 HES is projected to have \$157,151 revenue deficiency (1.9%).



# HES Rate Pressure

- 92% of HES's Costs are:

- Power Purchases (BPA)

- 6.5%

**B O N N E V I L L E**  
POWER ADMINISTRATION

**52%**

- UEC Contract

- 6.5%

**17%**

- Debt Payment

- 7.7%

**12%**

- System  
Maintenance/Capital

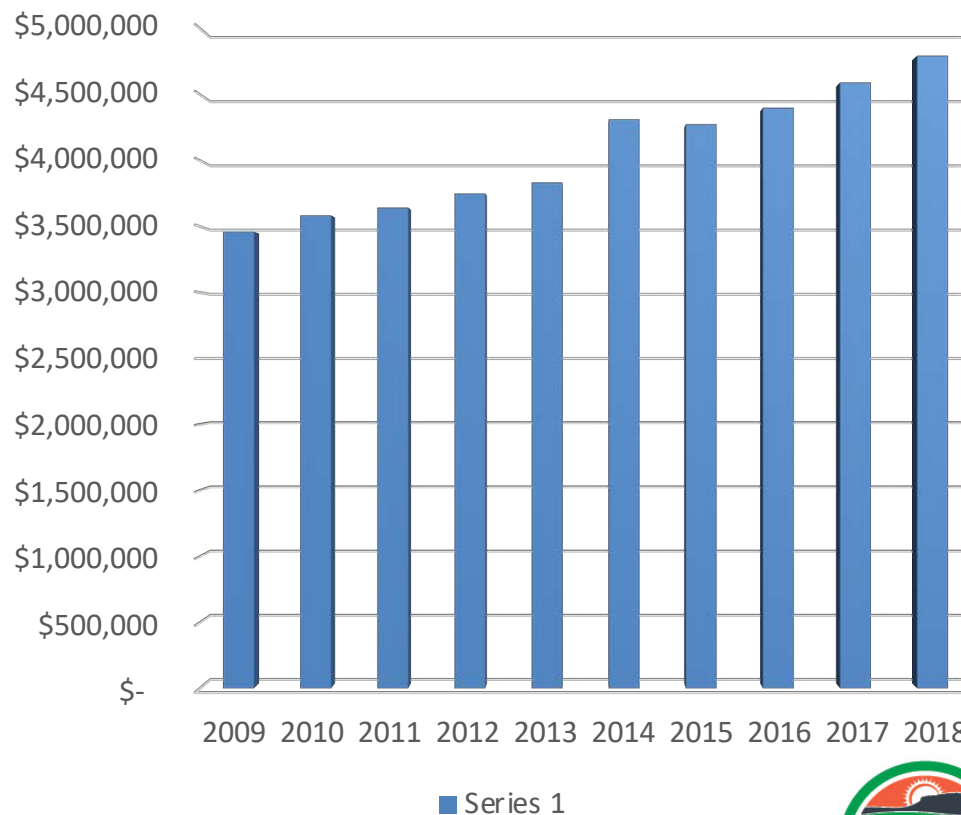
**11%**



# BPA 10-Year Rate Impacts

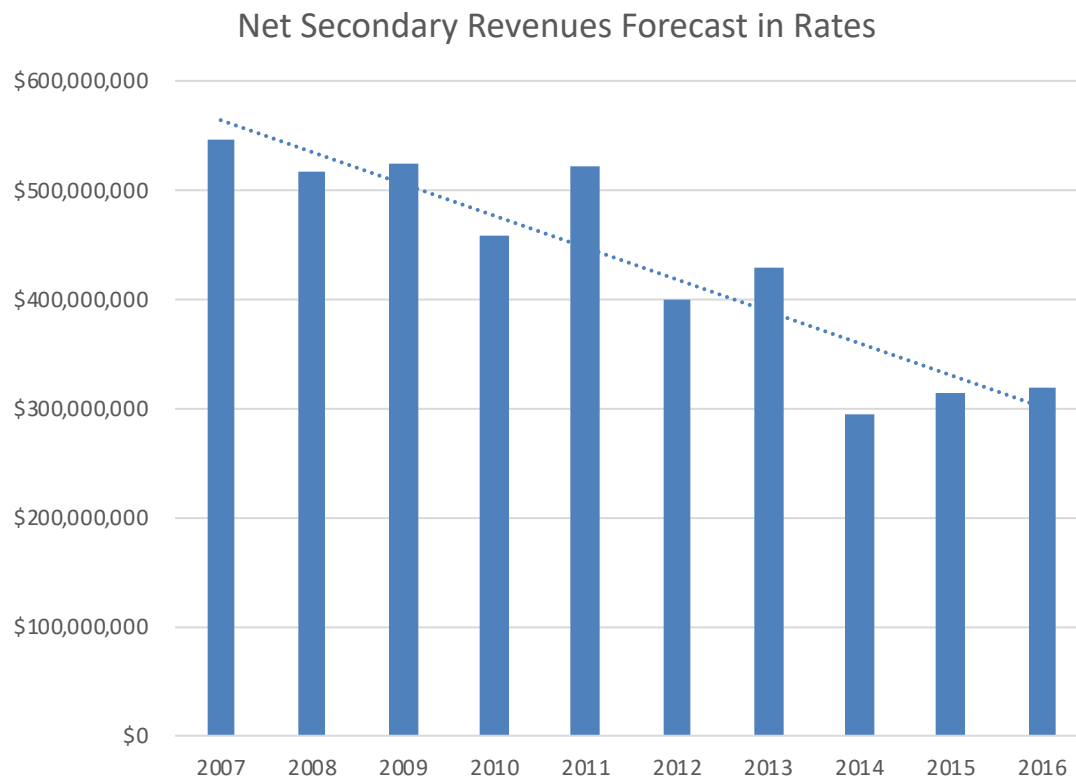
YEAR	BPA
2009	7.0%
2011	8.5%
2013	11.5%
2015	7.2%
2017	6.5%
<b>Overall HES Impact</b>	<b>38.5%</b>
2019	?

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.
- Combination of new renewables, gas prices, and load decline.
- Still a very significant credit against rates though.
- 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 System Maintenance (2014-20)

Six-Year System Improvements	\$6,715,000
Annual System Maintenance (6 Years)	\$2,465,000
Special Projects	\$4,350,000
Includes:	
AMI Conversion	
Hermiston East Substation	
Three New HES Feeders	
4.7 miles of overhead and underground line replacement.	
134 Pole replacements	





# HES 2018 Recommendation



**Individual Rate &  
Customer Class  
Adjustments**

**%**

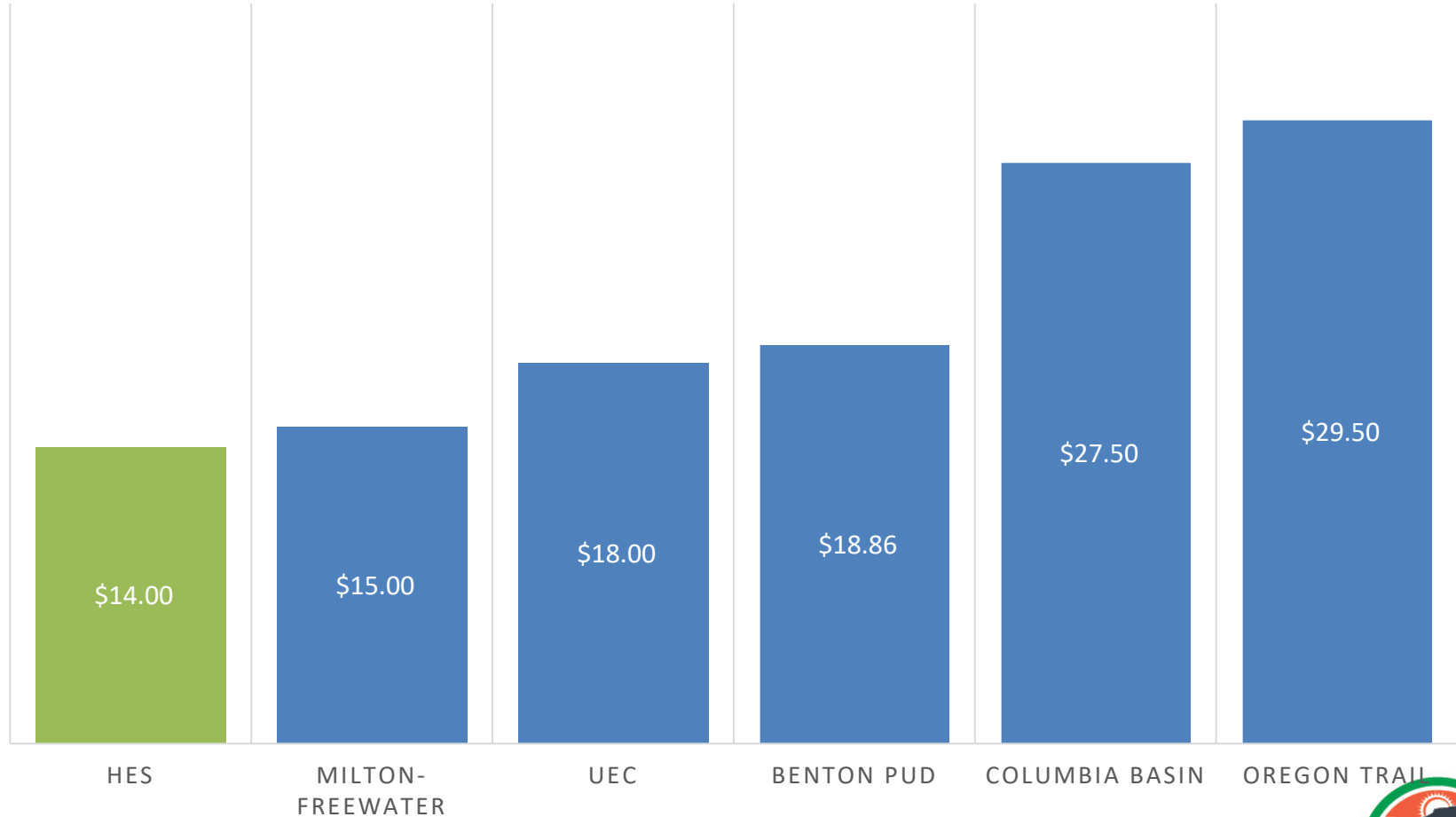


# HES Customer Bill

- HES's Customers Electric Bill:
  - Energy Charge + Base Charge = Customer Bill.
- Currently HES charges \$14.00 for Residential Base Charge.
  - Actual costs attributed to the Base Fee account for approximately \$24.00 for residential customers.
    - The remaining \$10.00 is made up in the energy charge.



# Base Charge Comparison



# HES's Energy Future

- Community Choice Aggregation:
  - Rep. Ken Helm (D) plans to entertain a Committee bill on this topic in 2019.
    - Customer selects its Energy Provider.
    - Utility provides infrastructure for delivery and billing.
    - Currently only for Investor Owned Utilities.



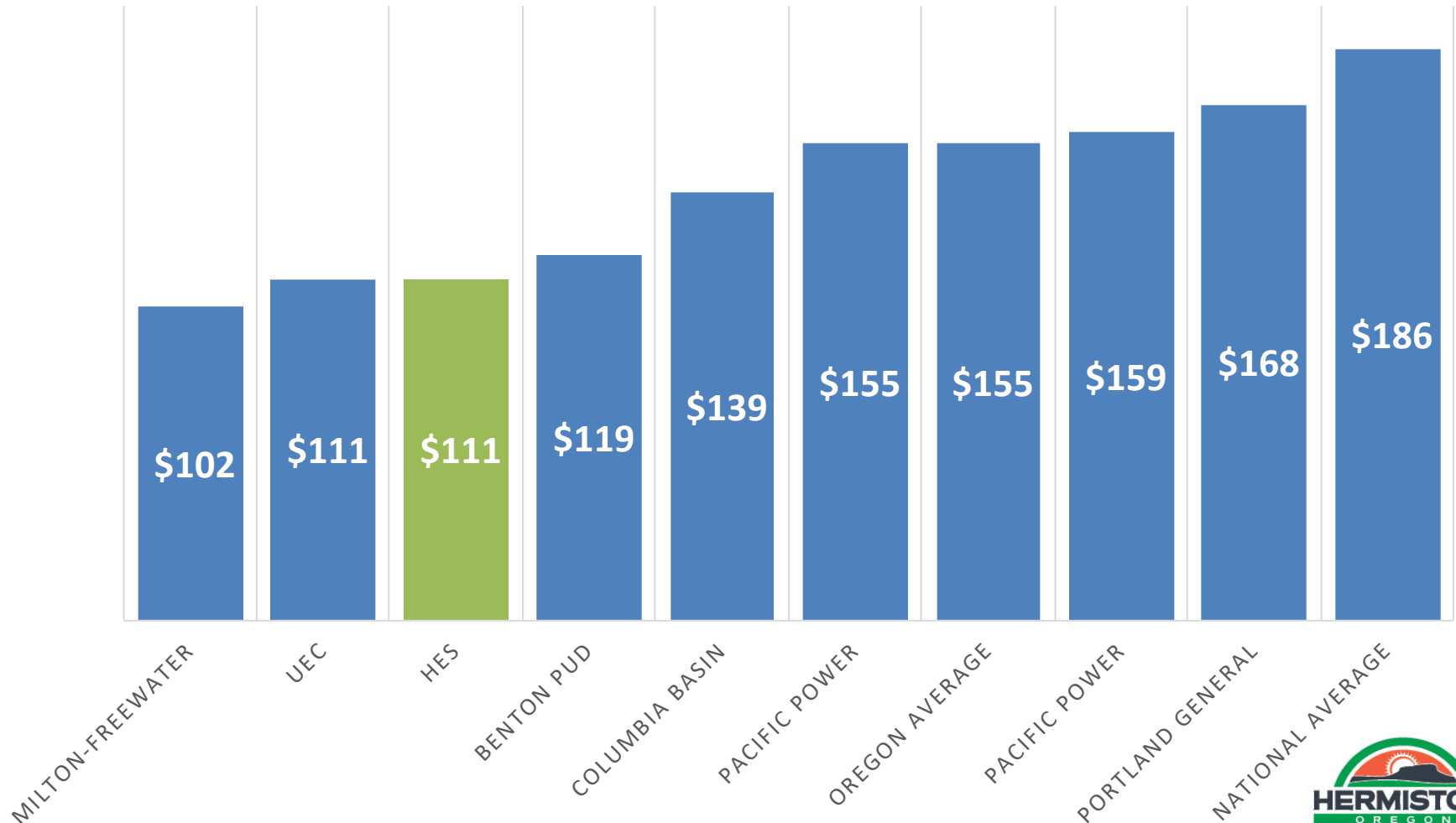
# HES Rate Recommendation

	\$/kWh		Demand		Customer Charge		% Change*
	2016	2018	2016	2018	2016	2018	1.87%
Residential	\$0.068	-	-	-	\$14.00	\$16.00	2.56%
Small Commercial	\$0.063	-	\$5.75	\$6.00	\$35.00	\$37.00	.88%
Large Commercial	\$0.047	-	\$5.75	\$6.00	\$160.00	-	1.54%
Industrial*	\$0.0463	\$.0487	\$5.75	\$6.50	\$200.00	\$250.00	-
Irrigation	\$0.047	-	\$6.00	\$6.25	\$27.50	-	1.79%

6.6 cents per-day average increase for Residential Customers



# HES Rate Recommendation



\* Based on 1,400 kWh per-month



# HES Rate Recommendation

- This Rate proposal does not include:
  - Anticipated BPA 2019 Rate Increase.
  - FY 2020 and beyond Construction Work Plan/System Maintenance.



# PowerUp PREpay

- New Meters Offer New Payment Options:
  - PowerUp PrePay
    - No Deposit Required
      - \$25.00 to start service.
    - No Monthly Bill
    - Allows Customer To Monitor Their Account Closely.
    - Customers are in Control
      - Pay when they want/How they want.





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# Questions

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