

DULUTH PUBLIC UTILITIES COMMISSION
Public Hearing
January 15, 2013

Members Present: Councilor Patrick Boyle, Patrick Huston, Councilor Jennifer Julsrud, Robert Prusak, Linda Sellner, Councilor Jim Stauber, Jason Thorsell

Staff Present: Bob Asleson, Jim Benning, Alisa DeRider, Leanna Gilbert, Eric Schlacks, Eric Shaffer, Glenn Strid

Others Present: Verne Wagner, resident of 5120 Juniata St
David Ross, resident of 526 W 6th St
Lance Reasor, resident of 130 E 9th St
William Lynch, resident of 6004 Highland St
Wallace Newquist, resident of 3112 Exeter
Richard Paulson, resident of 524 W Ideal St
Horace Kahlbaugh, resident of 1404 Eklund Ave
Tom Karas, resident of 902 S Lake Ave
Joshua Bixby, resident of 2809 E 1st St

Call to Order: The hearing was called to order at 5:00 p.m. by President Huston.

Under consideration were proposed rate changes for the natural gas utility.

Eric Schlacks, Gas & Energy Coordinator for the City of Duluth, gave an overview of the natural gas cost of service and rate study and the proposed changes. A consultant was hired by the City to perform a cost of service and rate study. The three components of the natural gas rates are: a monthly fixed charge, a commodity rate per 100 cubic feet (CCF) used, and the purchased gas adjustment (PGA). The PGA reflects the difference in cost between the actual market price of gas purchased versus the cost that was projected when the commodity rate was set, which can increase or decrease the commodity cost to the customer. In 2006, the projected cost of natural gas was \$0.92 per CCF; while the projected cost in the study period of 2012-2016 was just \$0.582 per CCF. While fixed charges would increase, commodity rates would decrease. The typical residential bill would change from about \$71.28 to \$74.74 per month, an increase of approximately 4.9%.

Verne Wagner stated that timing is everything and mentioned the fiscal cliff and the debt ceiling debate, increased taxes from the school district and the City. For those on fixed incomes, things get to be very difficult. All of the small increases add up. Everyone is building better houses and trying to conserve. Gas prices are going down. The economy is expected to pick up by the end of this year or next year. He recommends reconsidering this increase or at least postponing it until the economy improves. He also suggested finding other ways to save, such as paperless billing and budgeted payments.

David Ross stated that the Duluth Area Chamber of Commerce has been an unwavering advocate of this commission and they appreciate the work that the commission is doing. They were very surprised by this proposed increase for the natural gas utility. They thought that the gas utility was in far better shape than the water delivery and recovery system and that we were doing well with gas purchasing. There are reports showing that wholesale costs of natural gas went down 31% nationwide and 34% in Chicago in 2012. He stated that every time there is an increase, the members of the Chamber of

Commerce feel this in an amplified way. They are bigger users of this product, their taxes are larger because of their appraised values, and all of these things are coming at the same time. He and Chamber members are in opposition to this increase. He also appealed for more disclosure of the reasons for the proposed rate increase.

Lance Reasor mentioned the lack of public notice for this hearing. He asked why a notice about the proposed rate increase was not put in the monthly bills. He is concerned that this raise is coming at the wrong time along with all of the other raises and that this would have a big impact on those with limited income as well as businesses. He was told by Director Benning that most of the money would go for infrastructure improvements, capital projects, and other things. He asked what dollar amount the City is looking for. Eric Shaffer summarized the key projects that would affect the rates, some of which were either mandated or strongly recommended by the state, including replacement of gas mains in poor condition, replacement of copper risers, protection or relocation of meters near roadways, and normal maintenance items such as freezing problems at regulator stations. These projects would amount to approximately \$6 million in additional work over the next 5 years. The rate increase would cover these additional capital expenses, increases in normal operating costs, as well as build up a cash reserve for easier purchase of gas. Mr. Reasor asked if any of this money would be transferred to the City's general fund. Eric Schlacks explained that the payment in lieu of taxes (PILOT) is a flat 7% of gross revenues generated by the utility, so some of it would go to the general fund. Mr. Reasor would have liked to have this information provided in the paper or in the utility bill.

William Lynch asked why there are reduced rates for major users when there is global warming. It seems like we are promoting higher usage. He said he did not understand why the utility is making the payment in lieu of taxes when the customers pay taxes as part of their bill. Eric Schlacks mentioned that the City is concerned with the carbon footprint of its customers and has a series of conservation programs that help customers find ways to reduce generation of greenhouse gases. He also explained each rate class has a different cost of service, which is the reason for the difference in rates for each class of customer.

Wallace Newquist stated that he is on social security and every time a new rate comes out, he has less and less to live on. He has switched to burning wood. This increase would affect both him and local businesses. He wants commissioners to vote against the resolution.

Richard Paulson is concerned with all of the monthly fees that continue to increase. He does not understand why the gas rate is being increased when the costs are down. He asked about the markup above the cost. He also mentioned transfers out of the gas fund in the last few years. He thinks the commission should review this and share that information with the public. He is concerned that these increases will drive seniors out of their homes.

Horace Kahlbaugh stated that the cost of gas has fallen in the last year, and is curious if the money from the rate increase would go to other City functions. Eric Schlacks reiterated that the utility is required to pay 7% of gross revenues to the City's general fund. The utility also pays for services provided such as fleet and legal services. Mr. Kahlbaugh asked if the information about the components of the rates and their functions could be printed in the paper before this goes to Council.

Tom Karas stated that he has worked with many utilities around the country. He observed that municipal utilities have different responsibilities than other utilities. He recommended that the commission let people know if rates will be going up and give long-term projections into the future. Communication seems to be the issue today.

Joshua Bixby said that supporting documentation for the proposed increase should be more readily available so that the public could determine whether it is indeed necessary. He read through the rate study and is concerned about the integrity of tracking financial information. He thinks these issues should be addressed before proposing a rate increase. He also said that it would be impossible to determine whether the objectives of the increase were successful without information tracking capabilities.

The Duluth Public Utilities Commission planned to continue discussing the natural gas rate resolution at the regular meeting following the public hearing.

Adjournment: The hearing was adjourned at 5:44 p.m.

A recording of this hearing is available upon request.