

DULUTH PUBLIC UTILITIES COMMISSION

Meeting Minutes

March 9, 2011

Members Present: Councilor Patrick Boyle, John Bruggeman, Councilor Jay Fosle, Patrick Huston, Jennifer Vossen Julsrud, Linda Ross Sellner

Staff Present: Bob Asleson, Leanna Gilbert, Howard Jacobson, Nick Petrangelo, Eric Schlacks, Eric Shaffer

Members Absent: Councilor Daniel Hartman

Call to Order: The meeting was called to order at 5:23 p.m. by President Julsrud.

Approval of previous meeting minutes

Old business:

Water cost of service study

Commissioner Hartman had previously requested that AE2S figure out what the rates would be if we eliminated the fixed fee. These results were distributed to the commissioners. This is one more option to consider when moving to a conservation rate. It is very rare for a municipality to have no fixed charges. AE2S had originally recommended raising the fixed rate to \$4.00 right away and then \$0.50 per year. The original purpose of a fixed fee was to generate a guaranteed revenue stream to cover all of the fixed costs. Our fixed fee is not anywhere near high enough to make sure we can pay all of the bills. Eric Shaffer reminded commissioners that all of the rate scenarios in the study did not include capital projects, only operating costs. In order to do any capital projects, we would need to increase the rates. The commission also needs to discuss whether to negotiate individual rates for the industrial customers.

New business:

Updates from staff

The Highland pump station is currently under construction. Demolition of the interior will start on Friday. There are temporary pumps supplying water to everything in the Highland system, including the mall area, Piedmont Heights, and Hermantown. These temporary pumps will be in operation until mid-May or early-June. If the City asks for water conservation in this area as they have in the past, it is because the pumps went offline for some reason. Highland pump station and the adjacent water tower were both bonded for with Public Facilities Authority (PFA) loans. The pump station was just under \$1M and the water tower was \$3.5M. The first steel for the water tower should arrive around April 15th.

There was a main break on Central Entrance that was not actually a break. They were adjusting a surge valve at the Arlington booster station and opened it up too far and put water out the overflow. There was a leak on the pumping main on Central Entrance last night. There was a corrosion hole that needed to be plugged and welded. They also put an anode on it at the same time. The water tower on upper Lakeside overflowed a couple weeks ago. This was due to an electrical breaker tripping off the operation sensor control. Today the Highland tank overflowed because of a contractor adjusting the controls. This is resolved now.

The estimated cost to replace the roof on the West Duluth Reservoir is \$5M. This has been an issue for about 7 years. We cannot afford to even make the payments for a loan of that amount without a substantial rate increase. Eric Shaffer and Jim Benning discussed getting a consultant to reevaluate the condition of the roof and how much longer it will last. If the roof collapsed, it would cause cloudy water in the tank. The tank would be shut off and flow would be provided by pumping continuously and recycling water through the bypass valve. There would be a potential for low pressure during peak hours of the day.

City staff hired Lake Superior Consulting to do a Distribution Management Integrity Plan. This is required to be in place by August 4th. This is a rating system for our natural gas pipe that we have to do every year to show that we are maintaining the system in a proper manner.

Construction of Great Lakes Regulator Station will begin in mid-May. This will allow us to flow the full load of City gas through that regulator station. This should be completed by the end of the summer.

MNDOT has requested that we reroute a 16" gas main for their freeway renovation. This will probably occur later this month to the first part of April.

Later this month the City will be asking for proposals for the Asset Management Agreement, which sells off our excess gas pipeline capacity. This will be done by June 1st.

Pete Upton just sent out bids for winter storage gas. We should hear back from the suppliers in the next couple of weeks.

The sewer project in Canal Park continues. They are still working on it and pouring concrete regularly. The Polk Street tank is being built by WLSSD. That project was shut down for the winter.

Commissioner Sellner inquired about the lack of running data on the creeks on the Duluth Streams website. Eric Shaffer will ask Chris Kleist about this.

Nick Petrangelo reported that online bill pay is now available on the City website.

President Julsrud said that MIS is working on the DPUC website. They will also update the ComfortSystems website.

Upcoming Council actions

Commissioner Sellner inquired about the funding for the Riverside project that had been mentioned at the previous meeting. The funding consists of a PFA loan and three PFA grants. The Riverside project had been scheduled for 2012, but it was bumped up to potentially start in 2011 if there is State funding available. The pumps and force main for the Dodge Street storage tank was scheduled for 2016. This was also pushed up because it is ranked as one the top 3 projects by the PFA. The other top-ranked project is the lining of sanitary sewer pipes in Basin 2. If there is a bonding bill, we will be in really good shape. If there is no bonding bill, Riverside will happen in 2012. Dodge Street will stay in the queue waiting for grant money since it doesn't need to be built until 2016 for the consent decree. The Basin 2 project is also a consent decree project that does not need to be done until 2016. If we do not get grant money for the consent decree projects, they will be paid for with the Clean Water Surcharge.

Water conservation rate

AES recommended going from a declining block rate structure to a constant block before moving to the inclining block rate structure. The commission needs to decide if this is what they want to do. They also need to decide how many tiers would be in the inclining block rate structure. City staff would prefer a simple 2-tier structure. Industrial rates could be negotiated individually as previously discussed. The intent is to encourage conservation. We do not want to penalize companies for doing business and cause them to move elsewhere. The deadline for implementing the conservation rate is January 2013. Once the commission decides what direction to go, we will need to talk to the media and educate the public.

Water long-term capital plan

A dedicated water capital fund was suggested at the last meeting. The City Auditor said that it can be done if this is what the commission wants. Operation and maintenance would need to be revisited every 6 months because funds can be reallocated from the infrastructure fund to meet under-funded O&M needs. The infrastructure fund would need to be set up with the ability to bond. Bob Asleson described different ways to restrict funds, the most restrictive being

bonding. Eric Shaffer said that if we were to bond for water, we would try to get PFA loans due to their lower interest rates.

Eric Shaffer presented a list of water projects that need to be done. He also presented a list of a portion of the water mains in the city that need to be replaced. Many projects were canceled this year due to lack of funding. The list of projects assumes incremental rate increases to reach a capital budget of \$4M by 2015.

This commission needs to come up with a good plan and then relay it to the public. Commissioner Huston suggested figuring out the cost of doing nothing. Bob Asleson recommended starting with a long-term plan of how much money is needed per year and then figuring out the best way to fund it. Commissioner Boyle suggested waiting until there is a definite plan before going to the press.

Agenda for next meeting

The next meeting will be in City Hall Room 106A on Wednesday, April 13, 2011, at 5:15 p.m. The commission will continue to discuss conservation rates and the capital plan. Eric Shaffer and Howard Jacobson will bring a summary of the projects on Eric's list and when they would need to be done.

Adjournment: The meeting was adjourned at 6:45 p.m.

A recording of this meeting is available upon request.