

MURRAY MUNICIPAL COUNCIL

COMMITTEE OF THE WHOLE

Meeting Minutes

Tuesday, March 21, 2023

Murray City Center - 5025 South State Street, Conference Room, Murray, Utah 84107

Attendance:

Council Members and others:

Phil Markham – Vice Chair	District #1
Diane Turner	District #4
Pam Cotter	District #2
Rosalba Dominguez	District #3 - Excused
Garry Hrechkosy – Chair	District #5

Brett Hales	Mayor	Pattie Johnson	Council Administration
Crystal Brown	Council Administration	Greg Bellon	Power Department
Doug Hill	Chief Administrative Officer	Tammy Kikuchi	Chief Communications Officer
Matt Youngs	Power Department	Joey Mittelman	Fire Chief
G.L. Critchfield	City Attorney	Craig Burnett	Police Chief
Brenda Moore	Finance Director	Bruce Turner	Power Department
Rob White	IT Director	Jared Hall	CED Director
Kim Sorensen	Parks and Recreation Director	Brooke Smith	City Recorder
Ben Gray	IT	Caren Lopez	Finance Department

Conducting: Council Member Hrechkosy called the meeting to order at 4:15 pm.

Approval of Minutes: City Council Initiatives Workshop – February 15, 2023

Committee of the Whole – February 21, 2023

Council Member Markham moved to approve both sets of minutes, and Council Member Cotter seconded the motion. All in favor 4-0.

Discussion Items:

- **An ordinance amending the City's Fiscal Year 2022-2023 budget.** – Ms. Moore gave a complete review about all items that were included in the requested budget opening. Transactions involved funding various capital improvement projects, the Capital Projects Fund, receiving Tourism Recreation Culture and Convention Funding and other grant funding, as well as various allocations to and from the GF (General Fund). In addition, the proposed ordinance included language allowing Ms. Moore to make all the necessary transfers and ensure that transfers could be made to keep reserves at 25%. It was noted that she would continue to monitor overtime budgets affected by ongoing record snowfall this year.
- **Code related to storm water and solid waste transfers.** – Ms. Moore explained that transfers from the Solid Waste and Storm Water Funds to the GF were discontinued two years ago so the ordinance should be changed. Two purposes for the proposed ordinance were reviewed. The first was to repeal a section of City Code that required the City to transfer funds from the Solid Waste Fund and from the Storm Water Fund to the GF. The second purpose was to add language allowing the City Council to change the Power Fund transfer by making it optional; and clean up language making the ordinance more consistent with other current enterprise fund transfers.
- **An ordinance updating power rates.** – Mr. Bellon said Active Power Engineering and Bowen Collins are working on a master plan for the Power Department. He suggested that going forward, the master plan be reevaluated every five years.

Mr. Bellon spoke about unprecedented power costs over the past few months. He said that the preliminary February 2023 UAMPS (Utah Associated Municipal Power Systems) power bill was \$1.1 million higher than it was in February of 2022. He introduced Rate Consultant Mr. Dave Berg, with DBC (Dave Berg Consulting) LLC, who joined the meeting via telecom to discuss the City's current power rate situation. Mr. Berg said although he is located in Minnesota, he has assisted the Murray City Power Department with electrical utility analysis for the past seven years and has also worked with about 15 other municipalities in the State of Utah.

Mr. Berg began by discussing the City's 2023 FY (Fiscal Year) operating budget that ends June 30, 2023. He said that on an operating basis, the budget reflected a \$4.2-million operating loss. In addition to that, there was \$2.9 million in a proposed transfer to the GF and \$9 million allocated to capital improvements.

This meant that there would be a \$16 million loss relative to the budget, with a beginning of year cash balance of just under \$30 million. Had the budget come to fruition, that would have negatively consumed half of the utility's operating cash. Mr. Berg noted that he had just become aware of the budget in the last couple of months.

Mr. Bellon said looking back at the operating loss of \$4.2 million, a rate increase should have been implemented a year ago. This was the first time in 15 years that the power department had a negative operating balance. He explained how cash reserves were built up year after year and said once they reached the point of going into a negative operating revenue, they decided to use cash reserves instead of implementing a rate increase. Mr. Berg agreed with Mr. Bellon.

Mr. Berg discussed the budget as of the end of December 2022. He said at that time net operating revenue was slightly positive and only 1% of capital improvements had been expended as projects were postponed. As a result, by the end of December the budget was breaking even because for the first 5 months of the fiscal year, power costs were slightly less than expected. Following this, power costs became progressively worse.

Mr. Hrechkosy asked now that we know where energy costs were trending, was there a revised budget for considering future projections. Ms. Moore said the budget has not been revised. Mr. Hrechkosy thought it would be helpful to provide future projections and asked what capital improvement projects were postponed.

Mr. Bellon said the AMI (advanced metering infrastructure) project budgeted for \$4.5 million this year was postponed until next year due to supply chain issues. Mr. Hrechkosy asked if that project was critical. Mr. Bellon said no; but the condition of two sinking substations located on 4800 South are considered critical. He said the estimated cost for two substations is \$3 million, but first survey work of the entire area must be finished, that is currently underway. The survey would determine where exactly to relocate and rebuild both substations. Once the survey is done, they would get a geotechnical study done, and then order two new transformers which are currently on a two-year backorder.

Mr. Markham discussed recent activation of the emergency SCA (supply cost adjustment) authorized by the administration and asked how long it was in place. Mr. Bellon said six months.

Mr. Markham wondered if that revenue was included in the operating budget, even though \$170,000 per month was not a substantial amount of money to help the problem. Mr. Bellon said no it was not. Ms. Moore confirmed the total amount would be approximately \$1 million. Mr. Markham requested they ensure the amount was well accounted for.

Mr. Berg described a perfect storm in the western region that attributed to the uncertain market. Coal transportation issues related to railroad and trucking problems impacted the market; and coal plants not being allowed to run at full output. In addition, the drought impacted hydro plants due to lack of water, resulting in significantly reduced generated electricity. Because natural gas is generally the fuel used for marginal needed resources, other transportation and storage issues made for bad impact also.

He said that natural gas pricing in our region was significantly higher than areas like Texas and Louisiana. Normal pricing for wholesale power is usually around \$30 per megawatt hour, but last September there were days when the price exceeded \$1,600 per megawatt hour. In December, the price exceeded over \$600 per megawatt hour and was consistently above \$200 per megawatt hour. In February of 2023, it was still in the hundred-dollar per megawatt hour range. Mr. Berg said considering all of the issues impacting market pricing, the cost for energy was driven to elevated levels that could not have been predicted.

He confirmed that Murray Power essentially gets its power from two places; the majority from UAMPS, and a certain amount from the federal hydro power plant, which is WAPA (Western Area Power Administration). To review the FY 2023 purchased power costs he reported on average the power department budgeted \$2 million per month for buying wholesale power; but from July 2022 through November of 2022 costs were below that amount; in December 2022 the total cost for power soared to over \$4 million per month, and in January of 2023 just over \$3 million per month that continued into February.

Mr. Berg said that as far as revising the budget to reflect what happened, or projecting what could happen in the future, it was hard to determine because every month the cost for wholesale power fluctuates. The swing in pricing is the biggest budget challenge related to uncertain wholesale power costs. In a good market some money can be gained, but in a bad market a lot of money is lost, which is essentially what occurred.

Mr. Hrechkosy said prebuying energy, especially natural gas, helps mitigate some of the market uncertainty. Mr. Bellon agreed and explained that in November of 2022 when the Hunter Coal plant was curtailed at the same time of natural gas prices soaring to \$60 per megawatt hour it was like two worlds colliding. Energy was purchased at \$400 per megawatt hour, when normally it was \$45 per megawatt hour. He said the situation was uncontrollable and unforeseen. There was no way to eliminate the challenge and they tried to purchase power from UAMPS when the cost was soaring on a daily basis.

Mr. Bellon said they mitigated soaring costs the best way they could, and they have pre-purchased natural gas through February 2024. Before the Hunter Coal plant shut down, coal purchases were prepaid from the Hunter Coal plant for the coming summer loads, which is not completely certain. The Hunter Coal Plant is scheduled to be back up and generating high load hours this June for Murray power.

Mr. Hrechkosy asked what the locked-in price for pre-purchasing natural gas until February 2024 was. Mr. Bellon said it was \$4 per megawatt hour through the summer months, and for December and January it was \$7. He did not think the price would escalate again to \$60.

Mr. Berg discussed the impact of purchased power, when over a five-month period there was a 15% increase of \$2.5 million to overall operating costs. He anticipated the average cost from January 2023 through May of 2023 would be more than that.

Mr. Berg said the last time the City implemented a power rate increase was 12 years ago in 2011.

Mr. Berg confirmed even though current capital projects were delayed, they would still need to happen; and clarified that at the beginning of the fiscal year, before the chaos of the market occurred in November of 2022, the Murray Power budget was already at a significant negative number. If the desire was to cash flow capital improvement projects, rather than issue debt, the power department was already behind before there was even a big increase in operating costs.

Mr. Berg recommended the City increase power rates 9% overall effective May 1, 2023, or as soon as possible. He recommended performing a full cost of service and rate design study immediately because the last power rate study Mr. Berg did for Murray City was completed in 2016.

Mr. Berg stated while no promise can be made about where future energy costs will go from here, it is common to consider raising rates 9% now, and then look again at the situation one year later. However, because things are so uncertain and ultimately a 9% increase only raises \$3 million per year, which is \$250,000 per month; and because Murray power department was spending \$1 million per month with recent high prices, there is still going to be a challenge with the budget. It all depends on where the market settles.

Mr. Berg reiterated Murray Power's FY 2023 negativity of \$4 million in operating revenue existed before the GF enterprise fund transfer was allocated. A proposed 9% rate increase only raises \$3 million, which means that another rate increase may be necessary again later this year. Mr. Berg recommended that a new power rate study should be conducted soon.

He said many other utility companies borrow funds to rebuild substations, rather than use cash to pay for those projects. He felt there were other things that could be done over the next several months to improve the situation of the budget that will also help to determine future power rates and increases.

Mr. Berg discussed details about the proposed 9% rate increase for residential customers that would increase the customer charge from \$3.35 per month to \$8.00. He noted this was a 138.8% increase, which was equal to \$4.65. He suggested raising the second summer rate tier system so that residential customers will only see an increase if they use more than 600 kilowatt hours per month.

Mr. Berg said that in 2016 he recommended that Murray Power raise the customer charge to \$6, but it remained at \$3.35.

Ms. Cotter understood how the proposed increase would affect her own utility bill and discussed it

in terms of money. Her bill would increase from \$39.38 to \$44.12, and a 9% increase was on the base rate, not kilowatt hours or the entire utility bill. She said paying for the basic service, to bring power into the home from the meter was similar to paying a basic fee for a land line phone service. Mr. Bellon agreed. Ms. Cotter thought citizens would understand the increase better if money language was used in the ordinance to explain the increase instead of a percentage. In addition a 9% increase on a past summer bill would raise her amount up to \$3.12.

Ms. Cotter said because of this reasoning she can accept the proposed power rate increase more easily. Mr. Berg agreed Murray power rates are still very low comparatively and that when the increase was announced publicly, he would suggest telling citizens that the increase per month would be less than \$5.

Mr. Berg said in conclusion there is a cost to having a connection to the City's power system, even if energy is not used in the home, because a transformer had to be placed in neighborhoods, power lines had to be connected to homes, meters had to be installed on houses and the meter needs to read effectively to produce a utility bill.

Mr. Hill said the plan was for the City attorney's office to draft an ordinance incorporating all the recommendations into the rate. If Council Members proposed something different between now and the next meeting, he would ask them to communicate with Mr. Bellon, Mayor Hales, or Mr. Critchfield. He said changes could also be made during a council meeting.

Mr. Markham did not agree with raising rates now and then having to return with another increase in four months. He wanted to ensure it was done professionally and accurately the first time. Mayor Hales noted a past rate increase of another kind, and citizens felt a large increase of 45% was horrible. Mr. Markham asked since the City had not raised rates from 2011 until now, were citizens paying too much for energy all those years. Mr. Berg said no, the financials did not reflect that.

Adjournment: 5:19 p.m.

Pattie Johnson
Council Office Administrator III