

DULUTH PUBLIC UTILITIES COMMISSION
Wednesday, June 6, 2012, 6:00 p.m.
City Council Chambers
AGENDA

1. Roll call
2. Approval of previous meeting minutes
3. New business
 - 3.1 12PUC-007 RESOLUTION ESTABLISHING WATER RATES EFFECTIVE WITH METER READINGS AFTER JULY 1, 2012; SUPERSEDING ALL PRIOR INCONSISTENT OR CONFLICTING RATES.
 - 3.2 12PUC-008 RESOLUTION ESTABLISHING WATER RATES EFFECTIVE WITH METER READINGS AFTER DECEMBER 31, 2012; SUPERSEDING ALL PRIOR INCONSISTENT OR CONFLICTING RATES AS OF JANUARY 1, 2013.
 - 3.3 Review DPUC summer meeting schedule
4. Updates from staff
5. Upcoming Council actions
6. Commissioner questions or comments
7. Preview of upcoming business

DULUTH PUBLIC UTILITIES COMMISSION
Meeting Minutes
May 15, 2012

Members Present: John Bruggeman, Patrick Huston, Councilor Jennifer Julsrud, Robert Prusak, Linda Sellner, Councilor Jim Stauber

Staff Present: Jodi Amundson, Bob Asleson, Jim Benning, Leanna Gilbert, Howard Jacobson, Nick Petrangelo, Eric Shaffer, Glenn Strid, Clint Thursby

Members Absent: Councilor Patrick Boyle

Call to Order: The meeting was called to order at 5:17 p.m. by President Huston.

Approval of previous meeting minutes

New business:

Commission contact information

Due to a resolution passed by City Council, the commission is required to have contact information available to the public. City e-mail addresses will be created for the at large commissioners. There will be a button on the webpage that will allow citizens to send e-mail to all of the commissioners.

Commissioners will be able to check for messages from their personal computers. There will also be a City phone number posted that will be set to go to voicemail. City staff will check for messages and pass them on to commissioners via e-mail. After some discussion, it was determined that each commissioner should respond to messages individually to avoid violating open meeting laws. These points of contact should be available by the next regular meeting.

Commissioners have also asked for access to the monitors in Chambers for use during meetings. MIS will arrange for access to these before the next regular meeting. There will be a shared login and a shortcut for the commission that will access the meeting packet, which will be online.

Definitions resolution

Staff explained changes made to the categories, which included adding Commercial and Industrial classes 5 and 6. Class 5 applies to Duluth Steam. Class 6 applies to Spirit Mountain for seasonal snow making. Residential classes were revised to be based on usage instead of dwelling units. Commissioner Boyle had requested that City staff look into the rate for Chester Bowl Ski Area. Class 6 could be adjusted to include them as well.

Commissioner Bruggeman motioned to move resolution 12PUC-005 establishing water customer categories. Vice President Sellner motioned to amend 12PUC-005 to include a lower residential class based on usage of 0 to 2 CCF per month at a lower rate. The motion failed 4-2: Sellner and Stauber. Commissioner Julsrud motioned to amend 12PUC-005 changing the title to read "effective with meter readings after July 1, 2012". The motion passed unanimously. Commissioner Julsrud motioned to amend 12PUC-005 Commercial/Industrial 6 to be for snow making purposes only and to eliminate flow language. The motion passed unanimously. Commissioner Julsrud motioned to amend 12PUC-005 to move "Bed and Breakfast facilities" from paragraph 4c Dwelling Unit to 4b Commercial/Industrial. The motion passed unanimously. Commissioner Stauber motioned to amend 12PUC-005 to specify that the customer categories would be effective upon establishment of the new rate structure instead of on July

1, 2012. The motion passed unanimously. Resolution 12PUC-005 establishing water customer categories as amended passed unanimously.

Water capital projects resolution

The intent of the water capital improvement plan submitted in January was to help us to develop a plan to move into the future. The document will need to be updated regularly, but the intent is to show what we want to accomplish, why we would need a rate increase, and where the money would go.

Commissioner Bruggeman motioned to adopt resolution 12PUC-006. Commissioner Prusak said that he would like to have another year out added onto the plan annually. The resolution passed unanimously.

2012 water rate resolution

Vice President Sellner commented that she was not comfortable with another change to the fixed rates, since it was just changed in February. Staff explained that the change in February moved the \$3.21 clean water surcharge that was set to sunset over to the water utility. There was no net change to customer utility bills. The proposed change to the fixed rates is intended to make the charges more equitable across the board without losing the revenue intended for capital improvements. Commissioner Stauber requested that the previous charges and rate structure be included in the resolution. He also stated that he was not likely to vote in favor of an increase across the board. Commissioner Prusak mentioned that the proposed commercial rates are a fraction of what is charged in Superior.

2013 water rate resolution

The 2013 proposed increase is approximately 6%. With the proposed 2012 rates, the water utility will be operating at an \$800,000 deficit at the end of 2012. The 6% increase would bring it to about \$15,000 or breakeven by the end of 2013. This would include the additional capital projects as planned.

Vice President Sellner suggested increasing the rates for those outside City limits. Staff explained that cost of service studies have shown that they are already paying more than their fair share of costs. Those customers would see an 11% increase if the proposed resolutions pass. Commissioner Stauber thought it seemed premature to set rates for 2013 when the budget has not been approved yet. Staff explained that the commission had discussed how many years to set rates for in previous meetings. The commission directed staff to prepare resolutions for the remainder of 2012 and 2013. Eric Shaffer explained that in order to get certain projects done next year, such as the West Duluth Reservoir roof replacement, he needs to know that he can move forward with them by July 2012. President Huston stated that the reason that we are in this position is because there has not been action in the past. If we do not act now to improve the infrastructure, our children will be paying even more.

Public hearing and special meeting dates

The public hearing is scheduled for May 23rd, and the special meeting will be on June 6th. City staff will advertise the public hearing. The intent of the public hearing is to hear comments and information from citizens. The commission cannot vote on the resolutions until 10 days after the hearing, which is the purpose of the special meeting.

Updates from staff

Jim Benning and other City staff members met with David Ross and Roger Wedin from the Chamber of Commerce yesterday. They discussed the rate study presentation and the reasons for the proposed changes. Benning and Commissioner Julsrud are meeting with their executive board on Tuesday to share similar information.

The new Highland water tower on Basswood went online Monday. The old one will be torn down in early July. The pressure has not been increased yet. It will be increased gradually this summer.

Upcoming Council actions

There are no actions of note for the utilities.

Commissioner questions or comments

Commissioner Stauber explained the procedure for a "Call the Question" per Robert's Rules of Order.

Commissioner Sellner inquired about the purpose of the special meeting. The purpose of the special meeting on June 6th is for the commission to vote on the two rate resolutions. There will be no other business for that meeting.

Preview of upcoming business

The next regular meeting is scheduled for Tuesday, June 19, 2012, at 5:15 p.m. in City Council Chambers. A public hearing is scheduled for Wednesday, May 23, 2012, at 5:15 p.m. in City Council Chambers. A special meeting is scheduled for Wednesday, June 6, 2012, at 6:00 p.m. in City Council Chambers. The gas cost of service study will be complete soon, so the intent is to move on to that after the water rates are resolved.

Adjournment: The meeting was adjourned at 6:35 p.m.

A recording of this meeting is available upon request.

DULUTH PUBLIC UTILITIES COMMISSION
Public Hearing
May 23, 2012

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

Staff Present: Jodi Amundson, Bob Asleson, Jim Benning, Leanna Gilbert, Nick Petrangelo, Eric Shaffer

Others Present: Councilor Jay Fosle, resident of 323 103rd Ave W

Call to Order: The hearing was called to order at 5:15 p.m. by President Huston.

Under consideration were proposed rate changes for the water utility.

Jim Benning, Director of Public Works & Utilities, gave an overview of the reasons for the proposed changes. The State of Minnesota requires all municipalities to adopt a water conservation rate structure. This rate structure can be a constant block or inclining block rate. The current rate structure, declining block, does not comply with these requirements. The proposed changes also include a rate increase that will be used to fund capital projects. The water utility has been underfunded for the last few years and is currently operating in a deficit. The City has not been able to adequately work on capital projects and the number of water main breaks continues to rise. The proposed resolutions would begin to provide for capital projects, with a goal of having \$4M each year dedicated to capital projects by 2016. The new rate structure will comply with State requirements.

Jay Fosle stated that the only way to dedicate funds to a project is by bonding. He is opposed to raising the rates and suggested recommending bonding to City Council to ensure that the money goes to specific projects.

There will be a special meeting of the DPUC on June 6, 2012, at 6:00 p.m. in City Council Chambers to vote on the proposed rates.

Adjournment: The hearing was adjourned at 5:21 p.m.

A recording of this hearing is available upon request.

RESOLUTION NO. 12PUC-007

**RESOLUTION ESTABLISHING WATER RATES
EFFECTIVE WITH METER READINGS AFTER JULY 1,
2012; SUPERSEDING ALL PRIOR INCONSISTENT OR
CONFLICTING RATES.**

RESOLVED by the Duluth Public Utilities Commission (the "Commission") that the Commission hereby makes the following Finds of Fact:

- 1.) The City's water utility system infrastructure, taken as a whole, is badly deteriorated and much of it needs to be replaced.
- 2.) A large part of the City's water utility system infrastructure is in excess of 80 years old or more and has exceeded its expected useful life.
- 3.) At least \$4 Million needs to be invested annually in water-related capital projects in order to maintain the system's ability to serve the needs of the City over the long term.
- 4.) The City's water booster stations and water treatment facilities will need \$20 Million for repairs and replacement of equipment over the next 10 years to meet the needs of the City.
- 5.) The City's costs of operating its water system, including hydrants, electricity, and gasoline, have increased dramatically in recent years but the City has not increased its water rates to meet these costs since 2009.
- 6.) Because of the deteriorated state of the City's water mains, the utility has suffered increased costs for repair related to water main breaks as well as losses from loss of product and lost revenues.

FURTHER RESOLVED, that effective with the water meter readings after July 1, 2012, all customers of the water utility of the city of Duluth, whose water supply is measured by meter, shall be charged for such water in accordance with the schedule of rates established by this resolution as follows:

1.	USER CLASS	FLOW RATE/ CCF
	Residential 1 (R 1)	\$3.12
	Residential 2 (R 2)	\$2.93
	Residential 3 (R 3)	\$2.58
	Residential 4 (R 4)	\$2.27

Commercial & Industrial 1 (C&I 1)	\$3.12
Commercial & Industrial 2 (C&I 2)	\$2.62
Commercial & Industrial 3 (C&I 3)	\$2.10
Commercial & Industrial 4 (C&I 4)	\$1.87
Commercial & Industrial 5 (C&I 5)	\$1.62
Commercial & Industrial 6 (C&I 6)	\$1.37

2. In addition, all customers shall pay the following fixed charges for service based on the size of the water meter measuring service to the premises.

FIXED CHARGES ARE AS FOLLOWS		
Meter size	Effective July 1, 2012	Effective Feb. 1, 2012
1 inch & under	\$6.27	\$6.71
1-1/2 inch	\$10.97	\$9.34
2 inch	\$18.80	\$13.71
3 inch	\$68.92	\$41.71
4 inch	\$87.71	\$52.21
6 inch	\$131.57	\$76.71
8 inch	\$181.69	\$104.71
10 inch	\$238.07	\$136.21

3. Water metered at or beyond the city limits, for use by individual customers located outside the corporate limits of the city of Duluth:

All water, per 100 cubic feet - \$3.87, effective July 1, 2012.

4. Rates charged for water furnished to political subdivisions outside the corporate limits of the city will be by individual contract, using the following schedule of rates, effective July 1, 2012:

Hermantown	\$2.78/ CCF
Proctor	\$3.13/ CCF
Rice Lake Township	\$2.68/ CCF

RESOLVED FURTHER, any prior rates inconsistent or conflicting with this resolution are hereby superseded.

Approved by the DPUC: _____
(date)

Submitted to City Council: _____
(where appropriate) (date)

ATTEST:

Director
Public Works and Utilities
City of Duluth

STATEMENT OF PURPOSE:

This resolution sets water rates effective with meter readings after July 1, 2012.

This resolution represents a rate restructuring which moves the City toward a “flat rate” rate structure. Historically the City has had a decreasing rate based on volume which was intended to reflect the City’s costs of serving individual customers and represented the fact that it costs the City less to serve higher volume customers as compared to lower volume customers.

The State of Minnesota had mandated that utilities use their rate structures to encourage conservation and to that end had originally mandated that they restructure their rates to increase the cost per unit of water as volumes increased. The State has backed off that requirement, at least temporarily, but is now encouraging at least a flat rate system where the large users pay at least as much per unit as small volume users. This rate structure implements that system.

The new rate structure does preserve the funding for future capital improvements to the water system provided for in the rate structure approved in February.

The rate structure established in February 2012 is as follows:

MONTHLY METERED VOLUME		
	effective February 1, 2012 rate \$/CCF	effective February 1, 2009, rate \$/CCF
first 4,000 cubic feet, per 100 cubic feet	No Change	\$2.56
next 96,000 cubic feet, per 100 cubic feet	No Change	\$1.67
next 900,000 cubic feet, per 100 cubic feet	No Change	\$1.39
over 1,000,000 cubic feet, per 100 cubic feet	No Change	\$1.15

For consumers requiring water at an elevation in excess of 290 feet above Lake Superior, the rate for all water in excess of 100,000 cubic feet per month shall be effective February 1, 2009, \$1.67 per 100 cubic feet.

MONTHLY FIXED CHARGES ARE AS FOLLOWS		
Meter size	effective February 1, 2012	effective February 1, 2009
1 inch & under	\$6.71	\$ 3.50
1-1/2 inch	\$9.34	\$ 6.13
2 inch	\$13.71	\$10.50
3 inch	\$41.71	\$38.50
4 inch	\$52.21	\$49.00
6 inch	\$76.71	\$73.50
8 inch	\$104.71	\$101.50
10 inch	\$136.21	\$133.00

Water metered at or beyond the city limits, for use by individual customers located outside the corporate limits of the city of Duluth:

All water, per 100 cubic feet - \$3.87, effective February 1, 2009.

Rates charged for water furnished to political subdivisions or state or federal government installments located outside the corporate limits of the city will be by individual contract, using the following schedule of rates, effective February 1, 2009:

EFFECTIVE FEBRUARY 1, 2009	HERMANTOWN		PROCTOR		RICE LAKE	
first 100,000 cubic feet, per 100 cubic feet	\$3.04	No Change	\$3.40	No Change	\$2.70	No Change

EFFECTIVE FEBRUARY 1, 2009	HERMANTOWN		PROCTOR		RICE LAKE	
next 200,000 cubic feet, per 100 cubic feet	\$2.71	No Change	\$3.00	No Change	\$2.40	No Change
over 300,000 cubic feet, per 100 cubic feet	\$2.44	No Change	\$2.71	No Change	\$2.16	No Change

RESOLUTION NO. 12PUC-008

**RESOLUTION ESTABLISHING WATER RATES
EFFECTIVE WITH METER READINGS AFTER
DECEMBER 31, 2012; SUPERSEDING ALL PRIOR
INCONSISTENT OR CONFLICTING RATES AS OF
JANUARY 1, 2013.**

RESOLVED by the Duluth Public Utilities Commission (the "Commission") that the Commission hereby makes the following Finds of Fact:

- 1.) The City's water utility system infrastructure, taken as a whole, is badly deteriorated and much of it needs to be replaced.
- 2.) A large part of the City's water utility system infrastructure is in excess of 80 years old or more and has exceeded its expected useful life.
- 3.) At least \$4 Million needs to be invested annually in water-related capital projects in order to maintain the system's ability to serve the needs of the City over the long term.
- 4.) The City's water booster stations and water treatment facilities will need \$20 Million for repairs and replacement of equipment over the next 10 years to meet the needs of the City.
- 5.) The City's costs of operating its water system, including hydrants, electricity, and gasoline, have increased dramatically in recent years but the City has not increased its water rates to meet these costs since 2009.
- 6.) Because of the deteriorated state of the City's water mains, the utility has suffered increased costs for repair related to water main breaks as well as losses from loss of product and lost revenues.

FURTHER RESOLVED, that effective with the water meter readings after December 31, 2012, all customers of the water utility of the city of Duluth, whose water supply is measured by meter, shall be charged for such water in accordance with the schedule of rates established by this resolution as follows:

1. USER CLASS	FLOW RATE/ CCF	
Residential 1 (R 1)	<u>\$3.31</u>	\$3.12
Residential 2 (R 2)	<u>\$3.10</u>	\$2.93
Residential 3 (R 3)	<u>\$2.73</u>	\$2.58

Residential 4 (R 4)	<u>\$2.40</u>	<u>\$2.27</u>
Commercial & Industrial 1 (C&I 1)	<u>\$3.31</u>	<u>\$3.12</u>
Commercial & Industrial 2 (C&I 2)	<u>\$2.77</u>	<u>\$2.62</u>
Commercial & Industrial 3 (C&I 3)	<u>\$2.23</u>	<u>\$2.10</u>
Commercial & Industrial 4 (C&I 4)	<u>\$1.93</u>	<u>\$1.87</u>
Commercial & Industrial 5 (C&I 5)	<u>\$1.72</u>	<u>\$1.62</u>
Commercial & Industrial 6 (C&I 6)	<u>\$1.45</u>	<u>\$1.37</u>

2. In addition, all customers shall pay the following fixed charges for service based on the size of the water meter measuring service to the premises.

FIXED CHARGES ARE AS FOLLOWS	
Meter size	Effective January 1, 2013
1 inch & under	\$6.27
1-1/2 inch	\$10.97
2 inch	\$18.80
3 inch	\$68.92
4 inch	\$87.71
6 inch	\$131.57
8 inch	\$181.69
10 inch	\$238.07

3. Water metered at or beyond the city limits, for use by individual customers located outside the corporate limits of the city of Duluth:

All water, per 100 cubic feet - \$ 3.87, effective January 1, 2013.

4. Rates charged for water furnished to political subdivisions outside the corporate limits of the city will be by individual contract, using the following schedule of rates, effective January 1, 2013:

Hermantown	<u>\$ 2.94/ CCF</u>	<u>\$ 2.78/ CCF</u>
Proctor	<u>\$ 3.32/ CCF</u>	<u>\$3.13/ CCF</u>
Rice Lake Township	<u>\$ 2.84/ CCF</u>	<u>\$ 2.68/ CCF</u>

RESOLVED FURTHER, any prior rates inconsistent or conflicting with this resolution are superseded as of January 1, 2013.

Approved by the DPUC: _____
(date)

Submitted to City Council: _____
(where appropriate) (date)

ATTEST:

Director
Public Works and Utilities
City of Duluth

STATEMENT OF PURPOSE:

This resolution sets water rates effective with meter readings after December 31, 2012.

This resolution represents a rate increase of approximately 6% over those applicable after July 1, 2012. This increase will provide an estimated \$864,000 in additional revenue for capital improvements, raising the total funds available for capital projects to an estimated \$2,500,000.