

The Owatonna Public Utilities Commission met in special budget session in the Morehouse Conference Room at the Owatonna Public Utilities. Present were Commissioners Zirngible, Johnson, Rossi, Doyal and Vetter. Also present were General Manager Warehime; City Administrator Busse; Director, Engineering & Field Services Fenstermacher; Director, Finance & Administration Olson; Director, Information Technology & Metering Baum; Manager, Electric Operations Deering; Manager, Gas & Water Operations Prokopec; Manager, Human Resources Madson; Supervisor, Accounting Linders; Supervisor, Customer Care Van Esch; Supervisor, Information Technology Trom; Supervisor, Meter Services Johnson; Executive, Communications & Administration Coordinator Schmoll; Energy Conservation/Key Accounts Officer Hendricks; and OPU employees, Lori Jerpbak, Deb Anderson and Shanda Meier.

Notable Changes from Prior Years

Director, Finance & Administration Olson discussed notable changes from prior years.

- Generator #7 capacity revenue from SMMPA was suspended following a major upgrade while SMMPA recovered the cost of their investment which completed in September of 2023. The auditors required annual entries recognizing SMMPA cost recover expenses and offsetting revenue. The impact to the 2024 budget will show SMMPA Gen #7 revenue decreases while Gen #7 expenses decrease even more.
- Gas Asset Management Agreement (AMA) Revenue (for unused pipeline capacity) was previously budgeted as Other Revenue but will now be a reduction in gas costs. In 2024 the impact will show gas "other revenue" and commodity costs both decrease and PGA credits increase.
- Electric, Water & Natural Gas CD fair market value adjustment. This was previously not budgeted in the past and with changing rates, the fair market adjustments have been all over the board. It is in the 2024 as a best estimate and the hope is for a revenue increase.
- Monthly unbilled revenue and unbilled usage in all three utilities. Using AMI data we should have a better prediction of unbilled revenue and usage.

Proposed Rate Changes

Mr. Olson continued by discussing the proposed 2024 electric, water and natural gas rates. He noted there is a slight overall increase in electric rates of 2.1%; 8.8% overall increase in water rates and an 11.4% overall decrease in natural gas rates. Tiered residential summer water rates were also proposed as well as June is being considered a summer month beginning in 2024. The tiered residential summer water rates will increase gradually over a couple years. The purpose of the tiered residential summer water rates is to deter people from using large amounts of water in the summer and to address the impact on the infrastructure due to the increase load on the system. Commissioner Rossi inquired about the impact of the drought and the excess water usage on the aquifer. Mr. Fenstermacher replied the DNR is monitoring across the whole state, including a station just south of town, and with better well monitoring equipment, OPU will know exactly where our well levels are at. Drought impact is something that can be added to the system health reports. After discussion, the Commission felt the general direction is ok, but would like to see more evaluation as to the tiered rates listed. The key driver for the decrease in natural gas rates is the gas futures. The prices remain lower than expected and are predicted to stay low for the next year. The published gas rates will remain the same, while the decreased costs will be passed through to customers through the PGA and GTC. PGA credits will adjust monthly if the rates begin to climb.

Mr. Olson discussed commodity revenue and 3-year cost trends in all three utilities. He further discussed a new graph regarding Controllable Costs budgeted and actual versus the CPI.

Supervisor, Accounting Linders compared 2023 and 2024 non-commodity revenues including SMMPA revenues and credits; miscellaneous sales and credits, interest and investments, gas transportation revenue and access/connect charges. He further discussed 2023 and 2024 other expenses such as depreciation, contributed services, bank and credit card fees, uncollectible accounts, water service line protection program and contributions in aid of construction. Mr. Linders concluded by discussing 2023 and 2024 labor and benefits comparisons.

Mr. Olson concluded by discussing electric, water and natural gas net income forecasts. Net income should exceed non-cash expense and exists to build or maintain reserves while funding replacement of old assets. The capital history and forecast graph includes large, forecasted capital projects in upcoming years. Finally, he discussed reserves forecasts versus targets including where reserves would be with and without large, forecasted projects in 2025 and 2027.

Operations Budgets – Non-labor Expense and Capital

OPU operations staff presented their respective departments' proposed expenses and capital increases and/or decreases from 2023.

Non-Operations Budgets – Non-labor Expenses and Capital

OPU non-operations staff presented their respective departments' proposed expenses and capital increases and/or decreases from 2023.

Next Steps

Staff will make requested changes to the budget and present the Commission with a final draft to be approved at the November Commission meeting.

Adjournment

There being no further business to come before the Commission, the meeting adjourned at 7:27 p.m.

Respectfully submitted,

Tammy Schmoll
Executive, Communications & Administration Coordinator