

The Owatonna Public Utilities Commission met in special session in the Morehouse Conference Room at the Owatonna Public Utilities. The special session was held to discuss the cost of service study. Present were Commissioners Cosens, Kottke and Doyal. Absent were Commissioners Simon and Rossi. Also present were General Manager Fritsch; Chief Financial Officer Fondell; Director, Engineering Johnson; Director, Field Operations Warehime; Supervisor Accounting Sedivy; Supervisor Meter Services Pelot; and Executive, HR & Administration Coordinator Schmoll. Other guests included Dan Kasbohm of Utility Financial Solutions, LLC.

General Manager Fritsch opened the meeting by stating the meeting was called to discuss the cost of service study. He noted, the official study was conducted by a third party to ensure nothing is missed when conducting the study internally.

Chief Financial Officer Fondell, discussed the process she used to select the company to conduct the cost of service study. She noted, she had training at an APPA Conference from another employee of Utility Financial Solutions, LLC. and learned how to use their model for setting the target cash reserves for OPU. Mrs. Fondell introduced Dan Kasbohm of Utility Financial Services, LLC.

Mr. Kasbohm reviewed the objectives he would be discussing with the Commission. These objectives included: 1) Review Financial Projection and Rate Track, 2) Review Cost of Service Results, 3) Review Customer Charges, 4) Guidance from Commissioners regarding rate track and rate adjustments, class rate adjustments and customer charges.

Mr. Kasbohm discussed some assumptions used in conducting the cost of service study. He noted one of the assumptions is zero growth in the kWh units sold in 2018 and small growth of .1% in subsequent years through 2022. He noted the growth is assumed small due to efficiencies in appliances, lightbulbs, etc. Inflation rates are assumed at 2.5% and power supply increases for purchased power are projected at zero. Commissioner Cosens inquired if OPU is comfortable with the kWh assumption? Chief Financial Officer Fondell replied the numbers do not include any additional service territory so we decided to do the analysis with the amount we have. The capital improvement plan includes big-ticket items such as a new substation, water system upgrades, and service territory. Commissioner Cosens inquired why service territory was not included in the kWh assumptions if it was included in the capital improvement plans. Chief Financial Officer Fondell replied, it's hard to estimate how much kWh will be used but the service territory infrastructure has to be purchased.

Mr. Kasbohm next discussed the financial projections without rate adjustments. Key financial targets usually include debt coverage ratio (but OPU is debt free), minimum cash reserve levels and target operating income. It is recommended to have 45 days of working capital on hand. Potential catastrophic events are figured into the working capital on hand, as well. OPU's historic asset value is approximately \$74 million and OPU is below the average age of most utilities. This puts OPU at a lower risk level than most utilities. Chief Financial Officer Fondell, added, the 45 days on hand is designed to start the process of purchasing items needed to rebuilding after a catastrophic event and then the idea would be to fund the remaining costs. Commissioner Cosens asked, why would we not want to have all the cash on hand and fund it out of our own levels. Chief Financial Officer Fondell, noted, that is one of the items that is looked at during this process. Assuming no rate increases over the next five years, and full funding of current capital projects, it appears OPU would fall below recommended minimum cash reserve levels in 2020.

Two financial projections with rate adjustments were developed. The first scenario assumes no growth and the second includes the service territory acquisition currently under negotiations. Mr. Kasbohm noted there are several ways to get to the recommended levels. Options include changing the amount of rate increases or adjusting capital expenditures. Chief Financial Officer Fondell added,

OPU is a municipal utility and therefore a "not for profit". We recognize we need to evaluate the impact any rate increases will have on our customers. It is ok to dip below the recommended minimum levels as long as a plan is in place to move back to meet those recommended levels within three years. Just because the levels are below "recommended", does not mean we have negative cash levels. Capital expenditures can also be adjusted if necessary to help raise cash on hand levels.

Mr. Kasbohm next discussed the recommended cost of service changes for each utility class. He explained the cost of service is the amount it costs the utility to maintain connection to the grid at zero kWh consumption. The study discovered that street light rates are subsidized more over other classes, as is water pumping due to the demand rate being forgiven in the summer. In discussing the customer charge, Mr. Kasbohm noted if you have a cooler summer and your rates are over priced, less kWh units are sold and therefore, the utility is below what is needed to maintain connections. If the customer charge is adjusted to where it is collecting the costs of your system, then fluctuations in weather and the kWh sold are not as big of burdens to the company. Eight different usage profiles will be put together to indicate the bill impact.

Mr. Kasbohm's recommendations include a \$2 increase in the residential cost of service charge; a \$4 increase in the commercial cost of service charge; and, a good look at the demand charges as they seem to be on the lower side. It's best to have a long term idea of where you want these charges to add up. He noted this is especially important with more and more distributed energy coming into the market. Customers need to pay their fair share of the cost of maintaining their equipment and service versus more on the energy side.

Mr. Kasbohm summarized the recommendations and guidance he is looking for from the Commission. Overall OPU is financially in good shape since they are looking at less than inflationary adjustments and there is no anticipated increases from your power supplier. Getting your distribution charges more in line, so it doesn't matter where the power comes from and your distribution system is meeting requirements. Mr. Kasbohm is recommending a 2018 rate adjustment of 1.9% with a bandwidth of +/- 1% and an increase of \$2 on residential cost of service charge and \$4 on commercial.

Commissioner Kottke thanked Mr. Kasbohm for his time and in-depth, thorough explanation and asked Chief Financial Officer Fondell if she does this type of in-house study. Mrs. Fondell responded she has the training and uses the same model used by Utility Financials Solutions; however, it is nice to have an independent look at things as a way of validating what we do and bringing in other best practices when implementing the changes. Mr. Kasbohm recapped the cost of service charges at other utilities in the area who are comparable to our size.

The Commission thanked Mr. Kasbohm for his time.

General Manager Fritsch added, staff has budget recommendations and the draft budget will be distributed at the next meeting. Commissioner Cosens asked Mrs. Fondell to develop some scenarios with different rate increases and customer impacts. Commissioner Doyal inquired, how much do we see growth in solar impacting us. General Manager Fritsch noted, there doesn't seem too much interest in this area so currently the impact will be low.

**Adjournment**

There being no further business to come before the Commission, the meeting adjourned at 5:17 p.m.

Respectfully submitted,

Tammy Schmoll  
Executive, HR & Administration Coordinator