
MEMORANDUM

City of Salem 101 S. Broadway, Salem, IL 62881

Bev West, CMC
City Clerk

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Date: July 3, 2013

TO: WJBD Radio
Salem Times Commoner
Centralia Sentinel

Cc: Mayor and City Council
City Manager

**NOTICE OF SPECIAL MEETING
OF SALEM CITY COUNCIL**

PURSUANT TO THE OPEN MEETINGS ACT, notice is hereby given that the Salem City Council will meet at 5:00 p.m. on Monday, July 8, 2013 in the Council Chambers of Salem City Hall, 101 South Broadway Salem, Illinois, for the following purpose:

To discuss Natural Gas Rates and Department Operations

CITY OF SALEM, ILLINOIS

Bev West
City Clerk

Dated at 1:00 p.m. this 3rd day of July, 2013

**AGENDA
CITY OF SALEM
SPECIAL CITY COUNCIL MEETING
MONDAY, JULY 8, 2013
5:00 P.M.**

- I. Call to Order
- II. Roll Call
- III. **Council Action**
 - 1) Natural Gas Rates and Department Operations
- IV. Adjournment

Bill Gruen
City Manager

**SPECIAL MEETING
SALEM CITY COUNCIL
SALEM CITY HALL
JULY 8, 2013**

I. CALL TO ORDER

The Salem City Council met in Special Session on July 8, 2013 for the purpose of discussing Natural Gas Rates and Department Operations.

II. ROLL CALL

The meeting was called to order by Mayor Pro Tem David Black. Council Members present upon roll call were:

Councilman Jim Baity
Councilwoman Sue Morgan
Councilman David Black

Council members absent: Mayor John Raymer, Councilman Royce Bringwald

OTHERS PRESENT:

City Manager Bill Gruen
City Clerk Bev West
Finance Director Ben Stratemeyer
Public Works Director John Pruden
Assistant Public Works Director Annette Brushwitz
Members of the Media: Reece Rutledge, Centralia Sentinel; Bruce Kropp, WJBD Radio
Representatives from Radiac Abrasives, Americana Building Products, and Tilex

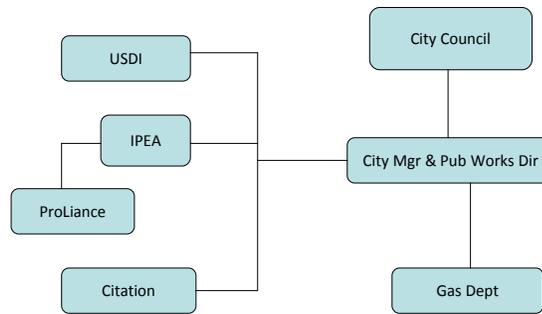
III. COUNCIL ACTION

- 1) Natural Gas Rates and Department Operations

City Manager Gruen indicated the purpose of the meeting was to discuss Natural Gas rates and department operations, and presented a power point presentation to provide an outline of how the department is funded and operated now, as well as proposed revisions to these processes. The power point is printed in its entirety below:

CITY OF SALEM NATURAL GAS RATES AND OPERATIONS

Who contributes to Salem gas operations?



City Council and Management Duties

- City Council
 - Approve policies and budgets for the Gas Dept.
 - Set rates for gas customers.
 - Directs the City Mgr.
- City Mgr & Public Works Director
 - Oversee operations of the Gas Dept.
 - Bill for usage and collect payments.
 - Implement budget set by City Council.

Gas Dept Personnel & Duties

- One Gas Leadman, two Gas Operators, one “Unit 9,” one Meter Reader.
- Maintain operations at Gas Plant.
- Install and replace gas meters.
- Respond to calls for gas leaks and JULIE locates.
- Fix gas leaks.
- Understand and apply ICC rules and regs that govern Dept operations.

IPEA / ProLiance

- Illinois Public Energy Agency (IPEA)
 - Facilitates procurement of gas supply for community members. Bills for gas received.
 - Contracted with IPEA through approx March 2015.
 - Facilitates education opportunities to members to fully benefit from natural gas as a resource.
 - Members include Bethany, Fairfield, Flora, Rantoul, and Sullivan, among others.
- ProLiance
 - Executes purchases of natural gas for Salem.
 - Offers market updates to members.
 - Hedging strategies for members.

Citation

- Supplement gas blended with supply provided by IPEA. Originates from the field operated by Citation, about 5 miles SW of Salem.
- Contracted through approximately May 2018.
- Variable amounts of gas received each month. Up to 400 dekatherms daily.
- Variable prices per dekatherm, ranging from \$4 to \$7.
- Prices determined by Inside FERC Gas Market Report for NGPL and Mid Con, minus \$1.15.

USDI

- Salem consultant on **all** natural gas matters, from operation to distribution and supply.
- Based in Olney.
- Reviews invoices from Citation and IPEA prior to City payment.
- Calculates monthly gas rates paid by all Salem customers.
- Assists City when placing hedges.
- Provides design and construction services for natural gas projects.
- Advises on regulatory matters.

Gas Dept Budget & Finances

- The FY14 Gas Dept budget totals \$4.182 million. Comprised of the following:
 - \$1.428 million for “operations”
 - Personnel
 - Risk mgmt, equipment, maintenance, fuel, etc
 - Meter replacements and system improvements
 - Administrative transfer to General Fund
 - \$2.754 million for taxes and “supply”
 - Cost of wholesale supply (IPEA / Citation)
 - Transportation charges and fees
 - Gas taxes

Gas Dept Budget & Finances

- In prior fiscal years, the Gas Dept has performed well financially.

<u>Fiscal Year</u>	<u>Revenues</u>	<u>Expenses</u>	<u>Net</u>
13	\$3,887,480	\$3,241,164	\$646,316
12	\$4,412,217	\$3,818,820	\$593,397
11	\$4,457,826	\$3,851,062	\$606,764
10	\$4,682,128	\$4,152,688	\$529,440
09	\$5,557,719	\$4,930,518	\$627,201
08	\$5,933,048	\$5,262,130	\$670,918
07	\$5,433,936	\$5,054,909	\$379,027

Salem’s Current Gas Rate

- At present, the City has a three-pronged gas rate (for all but Radiac).

<u>Meter Charge</u>	<u>Supply Charges</u>	<u>Operating Charges</u>
\$2 monthly charge for all customers.	Cost of gas, supplied by IPEA/ProLiance and Citation	Cost of “lost gas”
	Transportation (NGPL) charges	Operating charges, which ranged from \$3.50 to \$3.80 in 2012-13.
	IPEA & ProLiance operating fees	
	Storage fees	
	20% markup	

Salem’s Current Gas Rate

	<u>Mar-12</u>	<u>Apr-12</u>	<u>May-12</u>	<u>Jun-12</u>	<u>Jul-12</u>	<u>Aug-12</u>
Total Mo Charge	\$11.027	\$9.986	\$9.314	\$9.405	\$9.392	\$9.766
Cost of Gas	<u>\$6.133</u>	<u>\$5.086</u>	<u>\$4.541</u>	<u>\$4.614</u>	<u>\$4.604</u>	<u>\$4.908</u>
“Transport” Charge	\$4.894	\$4.900	\$4.773	\$4.791	\$4.788	\$4.858
	<u>Sep-12</u>	<u>Oct-12</u>	<u>Nov-12</u>	<u>Dec-12</u>	<u>Jan-13</u>	<u>Feb-13</u>
Total Mo Charge	\$9.469	\$9.722	\$9.493	\$9.612	\$9.577	\$9.606
Cost of Gas	<u>\$4.667</u>	<u>\$4.872</u>	<u>\$4.646</u>	<u>\$4.742</u>	<u>\$4.714</u>	<u>\$4.737</u>
“Transport” Charge	\$4.802	\$4.850	\$4.847	\$4.870	\$4.863	\$4.869

Proposed Gas Rate

A new gas rate for Salem customers (all but Radiac) might look a little more like the following.

<u>Meter Charge</u>	<u>Supply Charges</u>	<u>Operating Charges</u>
Monthly charge meter charge ranging from \$3 to \$300 depending upon customer class.	Cost of gas, supplied by IPEA/ProLiance and Citation Transportation (NGPL) charges IPEA & ProLiance operating fees Storage fees NO MARKUP	Cost of "lost gas" Fixed "transportation charge" set by ordinance, amendable only by the City Council, sliding scale rate for larger users.

Proposed Gas Rate

Each portion of the proposed gas rate would serve a separate purpose.

- Monthly meter charges and local "transportation charge"
 - Cover costs of operating the Gas Dept, including administrative costs.
 - Fixed by ordinance.
- Supply charges
 - Pass along the cost of gas, as cheaply as the City can purchase it (including NGPL and IPEA fees and charges).
 - Variable each month to reflect price fluctuations.

Proposed Gas Rate

Assuming current projections for number of customers and usage, a new rate might be structured as follows:

<u>Customer Class</u>	<u>Monthly Meter Charge</u>	<u>Supply Charge</u>	<u>"Transportation Charge"</u>
0 to 4.9K Therms	\$3.00	Same – variable	\$4.20
5K to 49.9K Therms	\$150.00	Same – variable	\$2.40
50K Therms +	\$300.00	Same – variable	\$2.00

Proposed Gas Rate

The proposed gas rate is calculated with the goal of collecting \$1.43 million for operations and admin and assumes number of customers and consumption as follows:

<u>Customer Class</u>	<u>Total Customers</u>	<u>Mo. Meter Charge</u>	<u>Meter Revenues</u>	<u>Projected Usage (Therms)</u>	<u>Transp. Charge/Therm</u>	<u>Transp. Revenues</u>	<u>Total Rev Collections</u>
0 to 4.9K	3,287	\$3.00	\$118,332	2,068,415	\$4.20	\$868,734	\$987,066
5K to 49.9K	47	\$150.00	\$84,600	624,242	\$2.40	\$149,818	\$234,418
50K+	4	\$300.00	\$14,400	430,676	\$2.00	\$86,135	\$100,535
Radiac	<u>1</u>	<u>\$500.00</u>	<u>\$6,00</u>	<u>1,555,613</u>	<u>\$0.69</u>	<u>\$107,337</u>	<u>\$113,337</u>
TOTAL	3,339		\$223,332	4,678,945		\$1,212,025	\$1,435,357

Proposed Gas Rate

Assuming current projections for number of customers and usage, a new rate might be structured as follows:

<u>Customer Class</u>	<u>Monthly Meter Charge</u>	<u>Supply Charge</u>	<u>"Transportation Charge"</u>
0 to 4.9K Therms	\$3.00	Same – variable	\$4.20
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Projection challenges

- Creating projections have been challenging.
- All Salem gas customers are thrown into the rate “soup” without any good way to differentiate customers.
 - No need to keep usable records (for rate purposes) for meter sizes.
 - No records for who is a residential, commercial, or industrial gas user.
 - Turnover of gas customers creates a challenge to determine actual number of gas customers.

So what?

No more wheezing the juice.



“Encino Man”

What’s next?

- If correct, create implementation rules.
 - Amend the “meter charge” and not create a “customer charge.” There would be a meter charge for **each** meter used by a customer.
 - Determine gas rate by total usage of each customer spread over each meter (same address) or apply rate to each individual meter based upon consumption at that meter?
 - Transportation rate to be determined by customer usage in a common, 12-month timeframe.
 - How does City place new customers into proposed customer classes?
 - How does the City accommodate change in customer classes if usage changes?

So what?

- Salem has an adequate Gas Fund balance for a rainy day.
- The rate is intended to generate \$1.43 million for operations and administration. Intend to collect only what we need – no more or less.
- Save almost all Salem gas customers money annually on their gas rates.
- Maintain the healthy fund balance Salem has gained over the years.

What's next?

- Receive comments. Am I on the right track?
- Double check projections. Are they correct?
- Confirm City's software can accommodate new rate structure.
- Consider creating new method by which City differentiates customer classes using meter sizes?

What's next?

- If correct, create implementation rules.
 - Amend the “meter charge” and not create a “customer charge.” There would be a meter charge for *each* meter used by a customer.
 - Determine gas rate by total usage of each customer spread over each meter (same address) or apply rate to each individual meter based upon consumption at that meter?
 - Transportation rate to be determined by customer usage in a common, 12-month timeframe.
 - How does City place new customers into proposed customer classes?
 - How does the City accommodate change in customer classes if usage changes?

Mayor Pro-Tem Black asked why we don't purchase more gas through Citation. USDI representative Darin Houchin responded that Citation does not produce enough to provide more gas to the City of Salem.

Mayor Pro-Tem Black asked if there is a “reserve” in the Gas Fund. City Manager Gruen responded that it is not actually a “reserve”, but the fund has performed well, and there are enough funds to allow us to operate using only the funds we currently have for 14 months. City Manager Gruen added that he does not feel the City should “mark up” our supply, and suggested there be a fixed transportation charge set by ordinance, amendable only by City Council action, with a sliding scale for large users.

Mayor Pro-Tem Black asked what the worst case gas emergency scenario would be. Public Works Director Pruden responded failure of the Gas Transmission line. Mr. Houchin added that a failure of the transmission line would take all of the reserves, although that is an unlikely event, as the line was replaced a few years ago.

Mayor Pro-Tem Black asked how this would affect residential customers. Mr. Gruen responded that it would reduce the overall cost for the majority of our residential customers, with only the smallest users (*those who heat only a garage with gas, or have a gas hot water heater*) would see an increase, and it would be only \$7-\$8 per year. Gruen

added that the purpose of proposing this change is to implement hedging strategies for all Salem customers, and pass along the cost of gas as cheaply as it can procure it.

Discussion ensued regarding how the different levels are determined. The current proposal uses historical gas usage, but Mr. Houchin and City Manager Gruen indicated that it would be more accurate to determine meter size and conductivity. Mr. Houchin estimated a 3-4 month period to collect this data.

Finance Director Ben Stratemeyer commented that this would be a good step towards making local industry more competitive.

Jeff Purcell, Americana Building Products, indicated he does not feel the proposed structure is competitive. Mr. Purcell indicated this would get the price down to \$.28/therm, which is not competitive with Ameren. Purcell added that the City of Salem is not-for-profit, and should not be making a profit. Mayor Pro-Tem Black responded that what is proposed is what is needed to pay for the operation.

Councilwoman Morgan suggested larger users receive a larger reduction in rate. City Manager Gruen responded that if you lower the large user rates, you must raise one of the other user rates.

Mr. Purcell indicated Ameren is charging \$.08/therm, which is significantly lower than Salem's proposed rate, and this rate keeps Americana from being competitive with competitors as close as Effingham.

City Manager Gruen indicated this is a policy decision for City Council members – do we want to do status quo for small users and give larger discounts for commercial or industrial users, or do we want to provide discount across the board?

Mr. Houchin of USDI indicated Mr. Gruen has done a tremendous job, and a great deal of work to get Salem's proposed rates to be determined in a manner comparable to other municipalities. Houchin added that he feels the level of gas reserves is good, and not excessive, and he feels the City of Salem is competitive with Ameren, as we have administrative costs.

Discussion ensued regarding the amount of Administrative Fees the Water/Sewer Department pays. Although the fund has more revenues, it pays lower admin fees. City Manager Gruen indicated it might be appropriate to switch the amounts the two funds are paying.

Mr. Purcell indicated he is not suggesting the City use its reserves – he would like to see the rates restructured to where the water department is paying a higher percentage of the administrative fees, and customers pay a higher meter fee, but receive a lower supply rate. Robin Idol, Tilex, indicated Tilex is a company that purchases gas for customers in a manner similar to Proliance. Ms. Idol asked if the City has an agreement with NGPL. Mr. Gruen responded that we do. Mr. Purcell asked if the City would consider a program similar to the electrical aggregation program, wherein customers could pay only for transportation costs, and could purchase their gas supply off the open market. Purcell added that he could have saved \$78,000 during the last year if he could have purchased through Tilex.

City Manager Gruen responded that in concept he does not object to that, but the City would need to be able to recover its costs for operations, and would need to insure that the City did not adversely affect small users by allowing larger users to break away. Mayor Pro-Tem Black concurred, and indicated the City must look out for the 3,127 smaller users. Mr. Gruen added that right now all gas purchases go through IPEA, and the City could not allow additional customers to break off without renegotiating our contract.

City Manager Gruen concluded by saying this was just the first meeting to gather information and provide possibilities.

IV. ADJOURNMENT

As there was no further business for discussion, Mayor Pro-Tem Black declared the Special Meeting adjourned at 6:15 p.m.

Bev West, CMC
City Clerk