Councilmembers Present: Barry, Collins, Lillquist, Perrie, Savidge, Sowards and Mayor Bassett

Others present were City Manager Barkley; City Attorney Pidduck; Energy Services Director Titus; Resource Manager Nystedt; Rate Analyst Byrd; Angie Sanchez, Project Manager for Economic & Engineering Services; Deputy Clerk Keno; Daily Record City Reporter Muir; and approximately five members of the audience.

ENERGY ADVISORY COMMITTEE – CONSULTANT’S PRESENTATION OF THE COST OF SERVICE ANALYSIS REPORT

Angie Sanchez, Project Manager with Economic and Engineering Services, presented an overview of the revenue requirement analysis for the electric utility.

In preparing revenue requirements for calendar years 2002 through 2006 the consultant made the following key assumptions:

• Rate revenues are independently calculated based on projected sales with a reduced load in 2002 for conservation, weather and rate increases; Rate revenues are escalated at 1.5% per year for growth and include a 10% rate increase effective August 2002.

• Miscellaneous revenues utilize actual 2001 revenues as a baseline and are escalated at 3% per year.

• Operations & Maintenance (O & M) expenses from the 2002 budget are utilized to develop baseline expenses and are escalated at 3%-5% per year, depending on the type of expense.

• Purchased power is independently calculated based on projected load forecast and is 55% of the City’s revenue requirement. BPA power rates with a load based cost recovery adjustment clause are used for October 2002 and October 2003 and beyond as well as a financial based cost recovery adjustment clause for October 2002-September 2003. The Chelan Public Utility District (PUD) contract is eliminated in October 2002 and the City becomes a full requirements BPA customer the same month.

• Debt Service includes a rate mitigation debt payment increase in 2006 to $605,000 and
and assumes no new debt issues for the time period analyzed.

- Capital Improvements include $6.7 million in capital funding for 2002-2006 with existing bond funds used to fund a portion of capital in 2002-2004. Rate funded capital increases from $530,000 per year to $1.4 million in 2005.

- Beginning Fund Balances in 2002 include a beginning 2002 balance of $1.3 million in rate stabilization and a beginning 2002 balance of $2.3 million in the Construction Fund. This Fund will be depleted in 2004.

- Ending Fund Balances of $3.4 million in 2002 will decline to $1.2 million in 2006.

Total target fund balances are $2.2 million from a combination of cash, rate stabilization, capital, and emergency reserve fund balances as well as inventory—leaving a $1 million difference.

Ms. Sanchez summarized the electric utility’s revenue requirements for calendar years 2002 through 2006. A 10% rate adjustment effective in August 2002 will provide sufficient revenue for 2002 and 2003 with the use of $1.0 million in rate stabilization funding. Rate adjustments will be highly dependent on BPA rate changes. The current requirement assumes a load based cost recovery adjustment clause of 31.9% for October 2002 and 37.4% for October 2003 and beyond, in addition to an 11% finance based cost recovery adjustment clause for October 2002 to September 2003. The revenue requirement assumes no reserve funding with each $100,000 of funding having a 1.1% impact on rates.

The consultant also prepared a cost of service analysis (COSA) to try to fairly allocate the costs of providing service to the customers that benefit with costs allocated in a manner that reflects the way costs are incurred. A COSA provides two essential pieces of information: 1) revenue responsibility by class; and 2) unit costs. Total expenses are a combination of demand, energy and customer costs.

Council reviewed a cost of service summary for the user classes in which the Low Income Elderly Cost of Service Differential and Municipal Lighting user classes were reallocated to other classes based on revenue. In conclusion, the cost of service analysis shows there are cost differences between the rate classes; the consultant recommends that large cost of service adjustments be phased in over time. The next step in the study will be the rate design process where the level and structure of the rates is reviewed to collect the appropriate amount of revenue in a manner that best reflects the utility’s policy and philosophy.

Energy Services Director Titus reviewed electric rate revenue and rate design related issues and requested Council’s input. Revenue issues include: 1) street lighting and size of the low income discount; 2) how to treat primary service customers and Twin City Foods; 3) the 10 year CWU contract; 4) treatment of security lights; 5) degree to which rates are changed to reflect new COSA revenue requirements and over what time period; and 6) adequacy of reserves. Rate design issues include: 1) size of customer charge for each rate class; 2) treatment of demand charges for General...
Service Demand customers; and 3) seasonality and/or timing of rate changes and the impact of BPA’ s rates. Council reviewed a comparison of existing rates to straight COSA rates as well as utility bill comparisons for residential and commercial customers under small, medium and large load scenarios. Under a Summary COSA for 2002 staff proposes to move Primary Service Customers and Twin City Foods to the General Service Demand rate class. Currently, no revenue is being received for street lighting. Low income elderly rates have been frozen with no revenue increase.

Following concurrence with the Energy Advisory Committee, staff will come back to Council in August with rate recommendations. Council consensus was to increase the customer service charge for all rate classes. Council would like to see some balance in the rates charged among the classes as well.

DISCUSSION WITH THE LODGING TAX ADVISORY COMMITTEE

Lodging Tax Advisory Committee (LTAC) members in attendance were introduced. City Attorney Pidduck summarized his memorandum on the functions and authority of the LTAC. Staff recommends the City’ s lodging tax ordinance be amended to more clearly delineate the LTAC’ s function.

The LTAC’ s functions and authority established by both state law and City ordinance are limited to those of review and comment. State law and City ordinance provide four types of proposals that can go to the LTAC for review and comment: (1) the imposition of a tax under Chapter 67.28 RCW; (2) any increase in the rate of such a tax; (3) repeal of an exemption from such a tax; or (4) a change in the use of the revenue received from such a tax. Although the power to make recommendations concerning changes in the use of lodging tax revenue certainly falls within the LTAC’ s authorized functions, neither the hotel-motel tax statute nor the City’ s ordinance which implements this tax authority give the LTAC the power to authorize expenditures of lodging tax revenues. Through an ordinance amendment Council could specifically create a process the LTAC could follow for review of Lodging Tax applications for funding expenditures. Council consensus was to amend the lodging tax ordinance as recommended by staff.

Council questioned the reasoning behind using monies from the Restroom/Parking Facility Fund to fund other projects. Members of the LTAC indicated creation of a public restroom facility and parking lot remains a priority; however, tourism promotion is important as well. Council felt a plan was needed for a public restroom facility and parking lot. Council discussed potential locations for public restrooms and parking and requested information on the size and type of restroom facility that could be built for $100,000. The 1999 Tourism Development Plan was briefly reviewed and it was noted some of the Plan’ s recommendations have changed considerably.

Staff will provide Council with locations identified for potential public parking lots and will prepare amendment language for the lodging tax ordinance.

ADJOURN Adjourn at 10:00 p.m. Lillquist

Affirmed
Mayor

ATTEST: City Clerk