

**MINUTES OF THE SPECIAL
MEETING OF THE COMMISSION**

September 11, 2023

1. Call to Order

The special meeting of the Board of Commissioners of Public Utility District No. 1 of Whatcom County was called to order at 3:00 p.m. by Commissioner Atul Deshmane. Said meeting was open to the public and notice thereof had been given as required by law. Those present included: Commissioner Christine Grant, Commissioner Jaime Arnett; and Commissioner Atul Deshmane. Staff: Chris Heimgartner, General Manager; Annette Smith, Director of Finance and Ann Grimm, Executive Assistant.

2. Rates and Costs Presentations

The first presentation by Heimgartner focused on utility rates and costs:

Functions of Utility Rates

- *Capital Attraction*
 - Allows Producers to cover costs;
 - Allow Producers to offer shares of the business or dept instruments to the Capital Markets
 - Widely viewed as the most important (primary) of rate functions.
 - Obligation to serve.
- *Efficiency Incentive*
 - Provides incentive for Producers to align costs with rates;
 - Forces Producers to control costs in order to recover costs;
 - Forces Producers to operate at an efficient enough level to overcome regulatory lag;
 - Allows efficient Producers to earn a fair rate of return.
- *Demand Control (Consumer Rationing)*
 - Rates need to be sufficient to BOTH elicit additional supply if needed, AND inhibit demand enough to deter consumer waste.
- *Compensatory Income Transfer*
 - In general, rates are not designed to offset the incremental cost of supply for an individual customer;
 - Rates may transfer income (through costs) within rate classes, and between rate classes;
 - Rates may also be used to transfer income from ratepayers to non-ratepayers or to pay for services that are unrelated to the costs of supply.

Rates and Costs

- Whatcom PUD operates under the assumption that rates should cover costs
- We have also assumed inclining costs of production and delivery for supply (water, energy, telecom)
- We have further assumed that by costs we specifically mean Long Run Marginal Costs
- These assumptions have led to dividing customers into “Rate Classes” in water:
 - Industrial
 - Irrigation
 - Grandview

Costs

- Long Run Marginal Costs have two components: Fixed and Variable
- For power, fixed costs are costs that are incurred regardless of the amount of power that flows through the system. Examples include: Payroll, Tree Trimming, Motor Fuel and Fleet expenses, Debt Service, the cost to maintain our transmission and substation system (including capital costs to replace parts of the system not associated with new load or system expansion), etc.
- For power, variable costs are costs that depend on the amount of power we deliver to our customer. Examples include: Cost of buying and transporting energy to our system, capacity cost, and the marginal cost of system expansion.
- For water, fixed costs are all the long run costs (including replacement) for our plants and pipes. Variable costs include power for pumping, chemicals for treatment, etc.
- For telecom fixed costs include debt service and replacement, variable costs are attachments and fees.

Cost Allocation

- Now that we have our customers divided into classes and have our costs, what remains is to assign the costs to the customer classes. We can then derive rates by dividing the costs by the units of sale;
- How do you assign costs to customers or classes of customers? Consider we have a valve to maintain on our industrial system. It costs \$10,000 per year to maintain. If we have 10 customers downstream from the valve, should we allocate \$1,000 per year to each of them? What if one customer only uses 1% of the water flowing through the valve? What if the valve only has one customer downstream, but the valve protects the integrity of the system as a whole?

- If one customer is 25% of our entire annual sales, should that customer pay 25% of all annual costs, even if a very small part of the system is used to directly serve them? (this is how you could allocate costs purely on a sales basis).
- If that same large customer represents the lowest cost of supply in the market because of the shape of his load, should he pay the same per unit as a customer who only consumes power on the expensive margin?
- If that same large customer only uses a small fraction of our installed capital to serve him, compared to our average (perhaps residential) customer, should they pay the same rates to deliver that supply?
- There is no right answer to any of these questions. There are different ways to allocate costs based on different assumptions.
- FCS Group is conducting a cost-of-service analysis (COSA) for Whatcom PUD and staff has been working with them through the analysis and in shaping of these assumptions.
- The outcome of the COSA will be cost allocations that we think are reasonable and fair.

Rates

Rates are set by customer class and typically have three components. Historically, we have had all three:

1. Fixed Charge (independent of usage)
 2. Demand Charge (also called a capacity charge and dependent on maximum point in time demand)
 3. Volumetric Charge (strictly dependent on overall consumption)
- Is there an “Ideal” rate structure? No.
 - This leads us back to the four primary functions of rates. If we constrain the rates to recover all costs there are many possible ways to construct rates.
 - We are guided by the principle of gradualism or incrementalism, in rates. Changes that happen to rates over time should be incremental and allow people time to plan.
 - One way to do this is to place all the fixed costs in a fixed charge to customers, then their bills will only vary by their own usage, and the price of supply.
 - We are close to having the FCS Group’s COSA complete;
 - Our budgets will help give us our costs for next year (for planning);
 - Rates will be developed and proposed in light of our COSA, budget and the principle of gradualism.

Next, Finance Director Smith presented on the following:

Rates and Cost of Service Analysis – Whatcom PUD

Tasks of the FCS Rate Study

Major tasks of the Rate Study on Industrial Water and Grandview Systems:

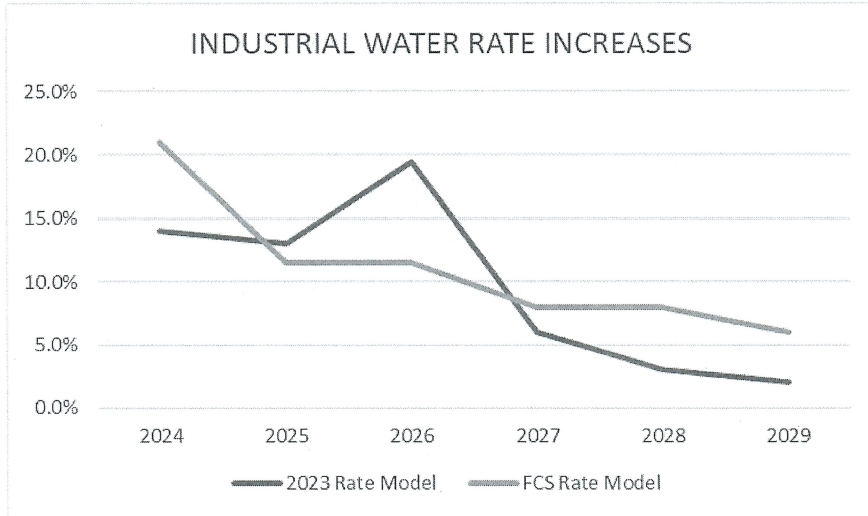
- Revenue Requirement – How much revenue is needed?
- Cost of Service – (COSA) How much does each service actually cost?
- Rate Design – How do we recover the required revenue?
- General Facilities Charge (GFC) – How much does it cost to connect to our systems?

“This task includes assisting District staff to determine how or if the new connection from the Industrial Water System to the Grandview fire system changes how the District should account and establish rates for these services”

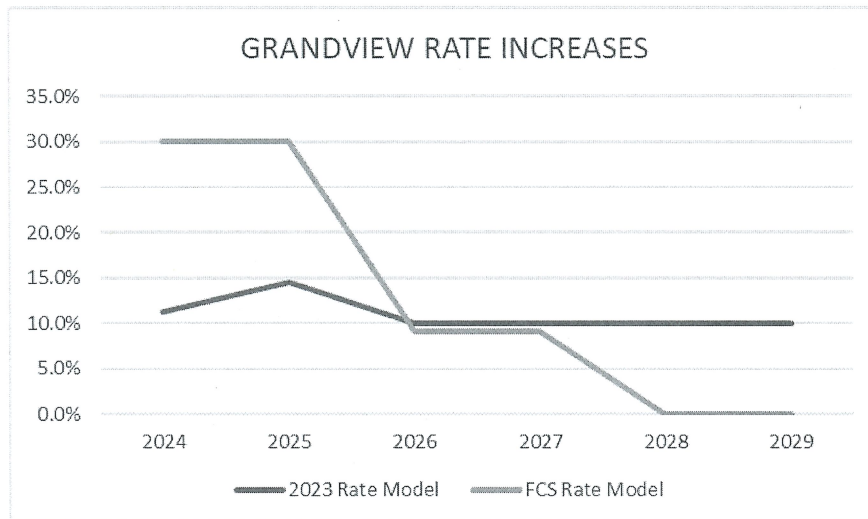
Preliminary Recommendations

- Rates need to increase in both the Industrial and Grandview utilities;
- Grandview
 - Include the LUD Revenue and debt service in the Grandview budget;
 - Just O&M labor hours for allocation. Have been mistakenly using all labor hours. Will increase Grandview allocation of admin costs.
- Industrial Water
 - Just O&M labor hours for allocation. Will increase Industrial Water allocation.
- General Facility Charges (connection)
 - Industrial Water – Change to just one connection fee. Also changed the formula based on new capacity.
 - Grandview Potable – 91gpm well capacity. Used average usage of meters.
 - Grandview Non-potable – complicated due to fire use and metered use.
- Rewrite The Water System Connection Fee Policy (Resolution 375) to have just one fee for the Industrial Water customers to connect (GFC – General Facility Charge) and eliminate language requiring new customers to pay for all new facilities.
- Formalize Water Connection Policies for Grandview (potable, fire and non-potable) and Irrigation

Initial Rate Impacts




ASSUMPTIONS:
\$70m cost of Plant 1 with two bond issues in 2024 and 2026



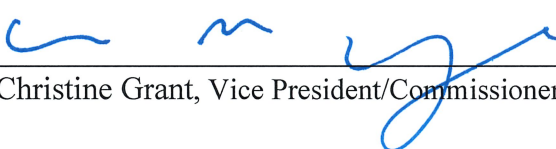
ASSUMPTIONS:
\$475K loan from Electric for three capital projects

3. Adjourn

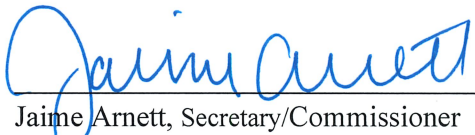
There being no further business for the special meeting, Commissioner Deshmane adjourned the special meeting at 4:15 p.m.



Atul Deshmane, President/Commissioner



Christine Grant, Vice President/Commissioner



Jaime Arnett, Secretary/Commissioner