



CITY COUNCIL

Work Session Meeting Minutes October 28, 2024

Mayor Drotzmann called the regular work session meeting to order at 6:00pm. Present were Councilors Barron, Primmer, Myers, Peterson, and Duron. Councilor's Hardin, Linton, and McCarthy were excused. Staff in attendance included City Manager Byron Smith, Assistant City Manager Mark Morgan, City Attorney Rich Tovey, HES General Manager Nate Rivera, Chief Jason Edmiston, Parks and Recreation Director Brandon Artz, and City Recorder Lilly Alarcon-Strong.

Hermiston Energy Services (HES) Updates

HES General Manager Nate Rivera presented information (PowerPoint Presentation attached) regarding: how and when HES was acquired from Pacific Power as a consumer-owned non-profit, the amount of kilowatt-hours purchased to serve current customers, HES's contract with Umatilla Electric Cooperative (UEC) for operational services, HES Construction Work Plan and electric utility material cost increases, estimated replacement expenditures, Cost of Service Analysis and results, expense breakdown and rate pressure, rate comparisons, rate adjustments throughout the years and current rate adjustment options, as well as future expectations for the electric industry.

HES General Manager Nate Rivera asked that the Council specifically consider one or two of the rate adjustment options presented so that he can focus his efforts on those possibilities and come back to the Council at a later date with more information and ask for a decision.

There was Council discussion regarding pushing out this information to the public in a broader form and also telling HES's story so the public has a better understanding of why this is needed and that HES has the lowest rates in the state, implementing a smaller annual increase each year instead of waiting years with no increases and then asking for larger amounts more sporadically, and making sure the timing of these increases are not implemented when other utility increases go into effect.

HES General Manager Nate Rivera answered questions and clarified information from the Council such as HES does not provide services to Amazon and that the electrical system HES is currently running on is working over the life expectancy the system was designed for; if HES waits until the system fails before doing updates customers will experience long durations of outages which will also be more expensive to repair as crews will be working afterhours and overtime. HES should be proactive to make sure reliability continues to be great and there are not system failures of this magnitude.

Councilor Barron stated he felt the Council should move forward with Option 1, having a 20.8% increase as to not use additional reserves. All other Councilors disagreed stating this option would be the most difficult for customers especially senior citizens and others who are on fixed incomes and that HES General Manager should return with more information regarding Options 2 and 3, having two or three increases within the next 18 months instead.

Adjournment

Mayor Drotzmann adjourned the work session meeting at 7:02pm and stated the Council will take a short break and then convene for their regular council meeting at 7:05pm.



Council Update

- About Hermiston Energy Services
- Construction Work Plan (CWP)
- Cost Of Service Analysis (COSA)
- Rate Adjustment Options
- Council Direction

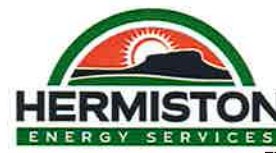


Hermiston Energy Services

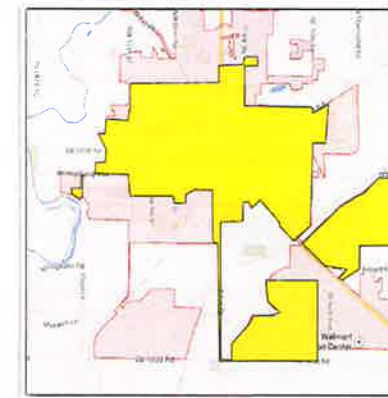
- HES is a Consumer-Owned, Non-Profit Electric Municipality formed October 1, 2001 after acquiring PacifiCorp's Hermiston distribution facilities.
- HES currently serves 5,556 customer-owners, with annual sales of 108 million kilowatt-hours.
- HES's facilities consists of 36.3 miles of overhead and 19.6 miles of underground primary distribution lines.

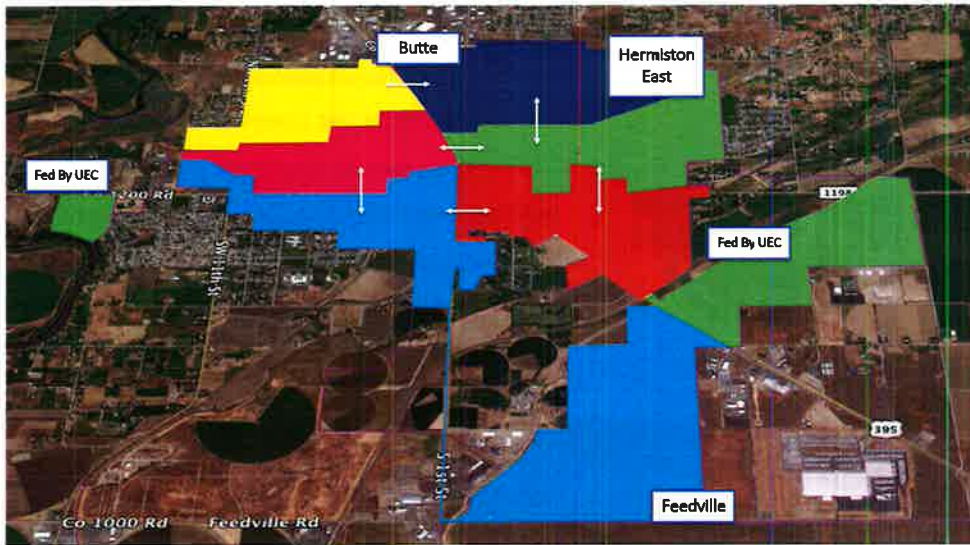


Hermiston Energy Services



- HES serves approximately 63% of the area of Hermiston.
- 51.5% of sales to residential customers and 47.9% to commercial customers.





UEC Contract



- After acquiring PacifiCorp's Hermiston distribution facilities in 2001 the City of Hermiston Contracted with Umatilla Electric Cooperative for the Below Services:
 - Technical Operation Services, Line Work, Tree Trimming, Drafting, Dispatch, Repairs, Inspection, Maintenance, Day-to-Day Engineering, Outage Response, Conservation, Customer Service and Billing.
- Contract was renewed in 2011 and is set to expire 2032.
- Every five (5) years contract fee is subject to adjustment. That adjustment will occur in 2025.

- HES has one employee.
- Responsible For:
 - BPA Contract, Rates, Budget, Construction Work Plan, Maintenance Schedule, Contractor Supervision and Oversight, Policies and Procedures, Overall Decisions Related to HES.



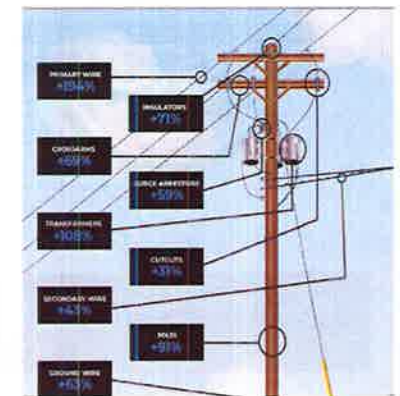
HES Construction Work Plan (CWP)



Electric Utility Material Cost Increases

- **Transformers:** Costs have doubled due to increased demand, supply chain issues, and the need for grid modernization to support renewable energy. Aging units and growing electrification needs are also raising replacement costs, with demand expected to grow through 2050.
- **Cables:** Overhead and underground cable costs have surged, seeing up to a 194% price increase. This rise is mainly driven by material scarcity and the need for higher-specification materials for wildfire resilience.
- **Poles & Hardware:** The cost of power poles and related hardware has risen sharply, with steel and resin shortages adding to price hikes. Since 2020, power pole costs have gone up by 91%, straining budgets for regular maintenance and replacement efforts.

Price Increases reflect the past 4 years



Construction Work Plan (CWP)

- 10-Year plan to replace all remaining overhead copper and URD conductors throughout Hermiston Energy Services' electric system.
- The existing copper lines are some of the oldest on the system and the most likely to cause outages (50+ Years Old).
- Replacing all copper conductors on the system will improve reliability by replacing the age-weakened conductor and upgrading the conductor's size in some locations, improving the backfeed capacity and future need of feeders.
- It will also reduce system losses.



Construction Work Plan (CWP)

Conductor Replacement Priority

- Outage history over the last seven years was analyzed to help determine the priority needs of replacement.
- Customers who experienced recent outages will be prioritized in the early phases of replacement.
- Color heat maps were made showing the areas that experienced individual outages.



Construction Work Plan (CWP)

- Replace all remaining three-phase and single-phase copper conductors.
- Main feeder lines: minimum replacement with 556 ACC wire.
- Three-phase lines: minimum replacement with 1/0 ACSR wire.
- Prioritize line segments based on the number of customers and load served.
- Replace backlot copper wires with URD, installed either in the backlot or relocated to the road if feasible.
- Give extra attention to line sections with multiple splices in the conductor.



Construction Work Plan (CWP)

Existing Copper Conductor		
Feet of Copper	Overhead	Underground
3-Phase		3,022
1-Phase	19,905	28,184
Backlot 3-Phase	5,324	
Backlot 1-Phase	23,960	
Total Feet	69,848	31,206

Construction Work Plan (CWP)



Construction Work Plan (CWP) Estimated Replacement Expenditures

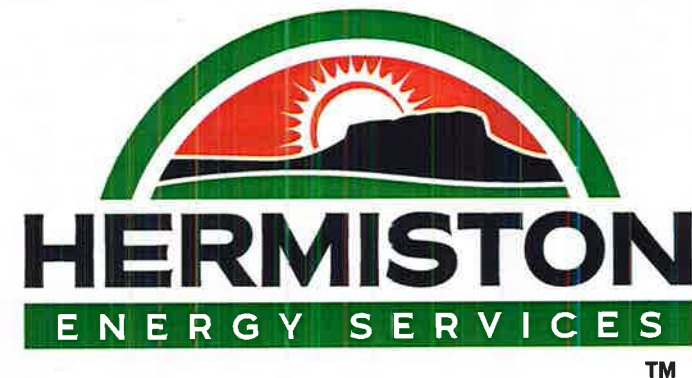
Phase (Year)	Total Feet	OH Replacement	UDR Replacement	Total Cost
1 (2024-25 FY)	10,358	3,909	6,449	\$1,624,723
2	10,358	3,909	6,449	\$1,624,723
3	10,134	3,845	6,289	\$1,595,727
4	10,134	3,845	6,289	\$1,595,727
5	10,066	4,184	5,882	\$1,646,820
6	10,066	4,184	5,882	\$1,646,820
7	9,647	3,984	6,663	\$1,516,623
8	9,647	3,984	6,663	\$1,516,623
9	10,323	4,361	5,681	\$1,554,387
10	10,323	4,361	5,681	\$1,554,387
Total	101,054	40,563	61,927	\$15,876,557

HES System

- By 2036
 - All Distribution (Underground/Overhead) Lines Will Be Replaced.
 - Two Original Point-of-Delivery Substations Have Been Rebuilt.
 - A Third Point-Of-Delivery Substation Was Constructed.
 - All HES Meters Have Been Replaced and Upgraded To Smart Meters.
 - HES Full Faith and Credit Obligations Will Be Paid In Full. (9% of HES Total Expense).



HES Cost of Service Analysis (COSA)



HES Cost of Service Analysis (COSA)

- HES is a not-for-profit electric utility.
- Rates are set at actual cost, not profit or shareholder driven.
- Ability to collect appropriate revenue.
- Rates are stable and predictable.
- Rates are equitable among customer classes.
- Rates are easy to understand and feasible for HES to implement.
- To achieve this, we work with an independent third-party firm to perform a Cost-of-Service Analysis on behalf of HES customers.



HES Rate Adjustment

In November 2020 Council Approved HES Rate Adjustments in Two Phases

- Phase 1: 6.98% Overall Adjustment
 - January 1, 2021
- Phase 2: 6.9% Overall Adjustment
 - October 1, 2021



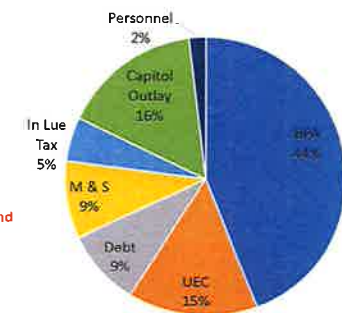
HES COSA Results

- In FY 2024-25, HES is using \$1.2m from cash reserves to offset revenue deficiencies.
 - **\$4.46m in Reserves.**
 - **In 2025-26 FY HES Will Have \$3.26m Available In Reserves.**
 - **\$1.5m is 60 Days of Reserve.**
- If We Implement The CWP, HES Will Have a Projected \$2,082,183 Revenue Deficiency In FY 2025-26.
 - **\$833,000 is BPA increases 2020-2026. (19% increase).**
 - **\$1,085,034 is Capitol Improvement Plan (119% increase)**
 - **\$108,665 is Materials and Services (16% increase)**



HES Expense Breakdown

- BPA Bill
 - Power & Transmission
- UEC
 - Distribution O & M, Customer Accounts & Administrative and General
- Debt
 - System Purchase in 2001
 - CWP Bond Finance (2015)
- Materials & Services
 - Accounting, Insurance, Street Lights, COH Electric Usage, Conservation, Energy Assistance, Dues, Contracts, Office Supplies, Travel, Phone, Transfers, and Equipment.
- In Lue of Taxes
 - HES pays this fee to the City.
- Capitol Outlay
 - Transformers, New Services, Meters, System Repair/Maintenance.
- HES Personnel



HES Rate Pressure

• 91% of HES's Costs are:

• Power Purchases (BPA)	44%
• UEC Contract/Labor	17%
• Maintenance/CWP	16%
• Debt Payment	9%
• In Lue of Taxes	5%

BONNEVILLE
POWER ADMINISTRATION

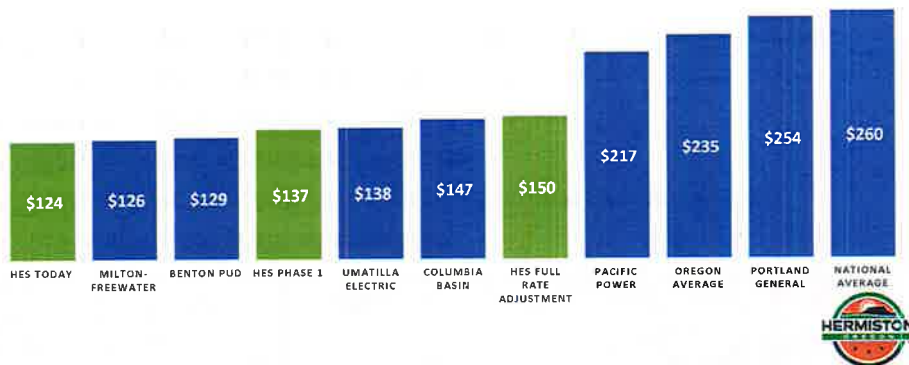


HES Rate Adjustment Options

- Single Rate Adjustment of 20.8% in June 2025.
 - **No Additional Use of Reserves.**
- Rate Adjustments of 9.93% in March 2025 and 9.96% in March 2026.
 - **Use Reserves of \$985,000 in FY 2025-26**
 - **\$2.28m Remaining in Reserves.**
- Three Rate Adjustments of 6+% spread over 18-months (March 2025, March 2026 & October 2026).
 - **Use Reserves of \$1,295,008 in FY 2025-26 and \$300,473 in FY 2026-27.**
 - **\$1,595,481 Total Use of Reserves.**
 - **\$1.67m Remaining in Reserves.**



HES Rate Comparison



* Based on 1,400 kWh per-month and 5% Franchise Fee/In-Lue of Tax Payment



HES Info

- BPA 20-Year Contracts:
 - **Effective Oct. 1, 2028**
 - **Finalized Early 2026**
- Threat to Lower Snake River Dams.
- Electrification of Vehicles.
- Continued Increases in Labor, Materials & Services.
- AWS 1%: 2026-27 Budget.



Council Direction

- Direction on Construction Work Plan (CWP)
- Option 1: Single Rate Adjustment of 20.8% in June 2025.
 - No Additional Use of Reserves.
- Option 2: Rate Adjustments of 9.93% in March 2025 and 9.96% in March 2026.
 - Use Reserves of \$985,000 in FY 2025-26
 - \$2.28m Remaining in Reserves.
- Option 3: Three Rate Adjustments of 6+% spread over 18-months (March 2025, March 2026 & October 2026).
 - Use Reserves of \$1,295,008 in FY 2025-26 and \$300,473 in FY 2026-27.
 - \$1,595,482 Total Use of Reserves.
 - \$1.67m Remaining in Reserves.



Questions

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