
MEMORANDUM

TO: MAYOR JENSEN AND ASSEMBLY MEMBERS

FROM: KARL HAGERMAN, UTILITY DIRECTOR 

SUBJECT: ORDINANCE #2021-18

DATE: 11/30/2021

CC: STEVE GIESBRECHT, BOROUGH MANAGER
DEBRA THOMPSON, BOROUGH CLERK

Thanks to the Assembly for supporting Ordinance #2021-18 in its first reading. I was out of town on a long-planned vacation and unfortunately could not connect to the meeting. However, I would like to offer some background information to the Assembly in regard to the various changes in the ordinance that I hope will clarify any questions that you may have as the ordinance proceeds through the second and third readings.

Primarily, the bulk of the revisions are based on the results of the recent rate study performed by D.Hittle and Associates. As has been openly stated in many public meetings, various impending issues that affect the Electric utility call for rates to be increased to cover revenue requirements. These issues include generally higher costs of doing business, lack of annual rebates from SEAPA, pending increased cost of wholesale power from SEAPA and costs associated with capital improvements, most importantly the Blind Slough Hydro project and Scow Bay Generation project. Customer class service rates are required to increase by 9.5% in January and another 9.5% in July to fully fund the debt service of the large capital projects and satisfy the bond bank that the utility's financial standing is sufficient to qualify for a bond sale. The rate changes in this ordinance mirror the previous table of increases that was shared with the Assembly prior to the fall ballot measure.

Other changes to rates are primarily focused on connection fees. Costs of materials used in new services, such as power poles, PVC conduit, transformers, meters and wire, have risen over the past few years and the utility must take steps to cover more of our expenses when installing a service. There are also changes made to reflect the different costs of overhead versus underground service installation and a clarification on what to charge if a customer is requesting an increase to their service level. It is important to note that even though connection fees are increasing, the full cost of each service installation is not covered by the new fees. The customer is still getting somewhat of a break on a service connection, but we are moving toward the customer paying more as our costs increase.

Permit fees are also increasing due to the amount of time that staff must take to handle each permit. The current permit fees are meant to cover general, administrative and inspection costs of the utility, but they fall short of actual time spent on each permit. Again, while the permit fees have increased, the utility still expends more than the proposed fee to receive, research, process, inspect and complete a permit. The revisions also allow the Utility Director to waive

permit fees for any Borough projects or work. This provision does not allow waiving of connection fees for Borough projects, only electrical permit fees.

Further, some attention was given to trees that may impact the electrical distribution system. A definition of ‘danger tree’ has been provided. Language was also developed to clarify private property owner liability for system damage or outage costs for trees on private property that have been determined by the department to be danger trees. The utility maintains a budget for removal of danger trees that conflict with primary power lines and has successfully removed many danger trees from public and private property in recent years, at no cost to the private owner. The offer of having the Borough remove danger trees to limit private liability and improve resiliency of the distribution system has been accepted by quite a few property owners, but there are some trees that the line crew must trim/prune/top every year to prevent interference and outages. These trees carry liability for the owner and we would like property owners to fully understand that issue going forward, as well as prevent trees that may impact the power lines in the future from being planted too close to overhead infrastructure.

The diesel fuel surcharge and purchased power adjustment language and formula has been reworked. The current formula was based on information from the last rate study and was outdated in regard to the cost of diesel fuel and the efficiency of our generators. The proposed changes will allow for the utility to apply an adjustment to electric billing if the utility runs substantial diesel in support of generation, such as during the annual SEAPA maintenance shutdown. The adjustment would be levied at the Assembly’s discretion, with PMPL requesting its consideration well in advance of the diesel run. If levied, the utility can recoup costs of fuel used for power generation above \$2.40 per gallon. The utility budgets for a 10-day diesel run at that price per gallon, so in essence the majority of the fuel used in a year is already included in the overall revenue of the department and the normal rates to the customer.

What is not factored into the annual budget, or this ordinance provision, are expenses for diesel runs to supplement SEAPA power for extended periods of time, or to supplant SEAPA power past the annual 10-day maintenance shutdown. If the Assembly wishes to cover the costs of any diesel generation outside of the annual maintenance period, direction from the Assembly is needed and additional wording will need to be added to the ordinance. Such a provision could be enacted at the Assembly’s discretion with the goal of covering the utility’s higher cost of diesel generation if SEAPA power were to fail or be insufficient to cover local loads for an extended period of time. Expenses that could be brought into such an adjustment could be fuel, lube oil and staff overtime for operations. I will draft language to this effect for the third reading if direction is given from the Assembly.

The remainder of the changes in the ordinance are mostly housekeeping. I’ll be happy to answer any questions at the December 6th Assembly meeting.

Thank you for your consideration.
