

Special Ketchikan City Council meeting was called to order by Mayor Williams at 7:00 p.m., June 9, 2011, with the following members present: Dick Coose, Jason Harris, Kj Harris, Matthew Olsen, Jack Shay, Robert Sivertsen and Marty West.

The Pledge of Allegiance was given by all persons in the Chambers.

Staff present were Manager Amylon, Assistant Manager Martin, Finance Director Newell, Fire Chief Share, Library Director McQuerry, Police Chief Talik, Public Works Director Allen, Electric Division Manager Kline and City Clerk Suiter.

COMMUNICATIONS

Mayor Williams noted several items laid on the table containing additional information relating to agenda items, as well as a new item concerning the design of a wood pellet boiler system for the new Fire Station.

PERSONS TO BE HEARD

Tim Whiteley, Chairperson of the KPU Advisory Board, updated the Council on the Board's activities. He noted a motion approved at their meeting of May 26 recognizing the power issues facing KPU. He said the Board wanted to offer its assistance to help come up with solutions, and he related some ideas they discussed such as promoting conservation, providing incentives for people to use alternative energy, revisiting the Mahoney Lake Project, and ensuring all rates are appropriate to maintain the system.

UNFINISHED BUSINESS

Amendment No. 3 to Contract No. 10-30, Professional Services Agreement for the Design of the Ketchikan Public Library – Design of Wood Pellet Boiler System, Bettisworth Welsh Whiteley, LLC – Deferred from June 2, 2011

Moved by Coose, seconded by Sivertsen the City Council direct the city manager to enter into Amendment No. 3 to Contract No. 10-30, Professional Services Agreement for the design of the Ketchikan Public Library, between the City and Bettisworth Welsh Whiteley at a cost not to exceed \$10,000 and authorize funding from the 2011 Library Facilities Replacement Capital Account.

Tim Whiteley, representing Bettisworth Welsh Whiteley, answered questions from the Council.

In response to Mayor Williams, Manager Amylon said this would include a conceptual design, and a preliminary magnitude of cost to use as a basis to move forward. He said he expected a report in three weeks.

Motion passed with Kj Harris, Coose, Sivertsen, West, Shay, Olsen and Jason Harris voting yea.

Amendment No. 4 to Contract No. 10-30, Professional Services Agreement for the Design of the Ketchikan Public Library Energy Model and LEED Template Services, Bettisworth Welsh Whiteley, LLC

Moved by Olsen, seconded by West the City Council direct the city manager to enter into Amendment No. 4 to Contract No. 10-30, Professional Services Agreement for the design of the Ketchikan Public Library, between the City and Bettisworth Welsh Whiteley at a cost not to exceed \$25,898 for energy modeling and LEED template services and authorize funding from the 2011 Library Facilities Replacement Capital Account.

Motion passed with West, Olsen, Shay, Jason Harris, Kj Harris, Sivertsen and Coose voting yea.

NEW BUSINESS

Councilmember Coose requested the item relating to the design of a wood pellet boiler for the new Fire Station be added to the agenda, and Mayor Williams asked if there were five hands to add the item. At least five were shown.

Amendment No. 5 to Contract No. 09-33, Professional Services Agreement for the Design of the Ketchikan Municipal Fire Station – Design of Wood Pellet Boiler System, Bettisworth Welsh Whiteley, LLC

Moved by Coose, seconded by Shay the City Council direct the city manager to enter into Amendment No. 5 to Contract No. 09-33, Professional Services Agreement for the design of the Ketchikan Municipal Fire Station, between the City and Bettisworth Welsh Whiteley at a cost not to exceed \$15,000 and authorize funding from the Fire Department's 2011 Main Street Fire Station Replacement Capital Account.

Tim Whiteley answered questions from the Council, stating he felt an exterior silo could be done, but it would affect the exterior design and probably cause a minimum reduction of one parking space. He said right now there is an option to enter the adjacent lot to the south, and it would probably remove that option. He said they may have some structural issues but they don't know the answers to this yet. In response to Councilmember Jason Harris, he said they didn't know for sure if there would be a delay to the project. He referenced comments from the contractor that said if the electric boiler were removed, there would definitely be delays, but if a biomass boiler were simply substituted there may not be delays. He emphasized they need more information on the issue, and noted there is always risk to the schedule and costs with this type of change.

Councilmember West asked if the report would be done in time for the KPU Advisory Board meeting at the end of the month, and Mr. Whiteley said there may be a very rough draft of it. She felt this may be a good way to plug in the Advisory Board, which is very anxious to assist.

Motion passed with Sivertsen, Jason Harris, Coose, Olsen, West and Shay voting yea; Kj Harris voting nay.

**Phase I Review of Electric Division Rate Structure
Presentation – D. Hittle & Associates, Inc.**

Electric Division Manager Kline discussed the issue of KPU's electric power, addressing problems relating to KPU's current rate structure. He said the current structure is not linked to the cost of actually providing service, there is no transparency of detail in the rates, no ability to judge equitable treatment between rate classes, no ability to judge the impact to rates and/or charge third parties as the system becomes more complex, and no ability to influence customer behavior to help avoid future problems.

Mr. Kline explained the objectives of the initial rate structure study, which were to provide the Council and management with a methodology to take the randomness out of rate setting, and to position KPU to deal with several issues that impact the rates, such as capital projects, wheeling, and wholesale rate adjustments. He explained how rates can affect the way customers use energy, and emphasized the current rate structure encourages customers to use more electricity. He provided an example of one customer's usage once the customer converted heat to electric. He stated KPU needed a way to measure and/or forecast load growth to plan for future supply needs and address infrastructure upgrades.

Mr. Kline continued by outlining the 2011 situation that KPU is faced with, citing new development and work occurring in the City, increasing oil prices and load growth occurring in other areas of Southeast Alaska. He emphasized the need to track and trend Ketchikan's daily consumption in kilowatt-hours versus heating degree day, as well as inventory and track identified large, new commercial and industrial loads. He clarified the forecasted load additions are not exact but rather rough estimates, and businesses and organizations discussed this evening are not solely driving the load increases. He explained the formula used to forecast future load, and outlined the near term consequences of depending on diesels. He explained building more hydros is essential, but development is more than 10 years out.

Electric Division Manager Kline briefly discussed the IRP process of working toward a prioritized list of transmission and generation projects, noting the IRP will also address and recommend demand response tools such as rate structures and conservation efforts. He noted that rates can encourage conservation, and conservation requires resources not in place today. He noted one of the key messages from the First IRP Technical Conference in Sitka that occurred in April was the discussion of alternative space heating technologies.

Dave Carlson, CEO of Southeast Alaska Power Agency, provided a brief overview of what SEAPA is. He noted there is little question that increasing load demands will outstrip current hydro supply in the near future. He explained a hydro system is 100% feast or famine, dependent primarily upon weather conditions. He displayed a graph

showing there is virtually no average inflow into the lakes. He said we really need to identify load forecasts, because they are going to be key. He went on to display a SEAPA system analysis comparing historical average hydro generation and a 1% load growth. He continued by comparing the same with a 2% load growth. He said the differences can be made up by building new generation, burning diesels or, to some extent, by educating people and urging them that conservation is needed.

Mr. Carlson observed that much of the percentage of the load growth is due to electric heating conversion, some of which are driven by grants from the State of Alaska. He emphasized that building the next hydro project will be expensive, and he cited the costs of several projects. He also noted it takes at least ten years to build a new hydro project, and stated the elements involved. He expressed the opinion it will be very difficult to obtain 100% grant funding for energy project from the State in the future. He said we are lucky the rates in Southeast are very low, even lower than the Pacific Northwest.

He continued by citing efforts to address this problem. He discussed the Integrated Resource Planning effort, which is being led by the State. He felt local utility rates could be adjusted to discourage heating with electric heat, and noted large municipal buildings should be built with dual heating sources. He emphasized that the next hydro increment for the interconnected system must be started now. He also encouraged public awareness of the energy issues facing Southeast Alaska. He answered questions from the Council. He brought up the idea of utilizing the geothermal power on Bell Island.

The Council took a short break at 8:00 p.m. and resumed at 8:09 p.m.

John Heberling of D. Hittle & Associates addressed the Council and provided the results of the Phase I Study of electric rates. He provided an overview of existing electric rates, noting they have been relatively stable for the past 25 years. He reminded how the diesel surcharge is applied, stating there has not been as much diesel used since the Swan Lake – Lake Tyee Intertie went online. He pointed out there was approximately \$18 million collected in electric revenues in 2008, and stated those decreased to \$15.9 million in 2010. He said the primary reasons were the reduction in diesel surcharge and the warmer winter loads. He explained the rates need to be set to recover the annual cost, which includes operating expenses, debt service and capital improvements.

Mr. Heberling explained some changes in revenue requirements that occur over time: inflationary impacts on expenses; additional capital expenditures, and new debt payments. He felt additional revenue will most likely be needed. He cited increasing power demands due to new construction projects, space heat conversions, and interconnected communities. He said the availability of surplus hydroelectricity will continue to decline, causing investment in new hydroelectric projects.

He went over some basic electric rate concepts. He said they should be cost based, fair, stable, understandable by consumers, practical to administer, recover necessary revenues to pay costs and meet bond covenants, and encourage efficient consumption. Mr. Heberling outlined rate adjustment options, stating that radical rate adjustments should be avoided. He also discussed rate structure options, noting that rate components can be

June 9, 2011

adjusted separately through the monthly customer charge, the energy change and the demand charge. He emphasized that declining rates generally increase consumption and increasing rates generally reduces consumption.

Mr. Heberling elaborated on energy blocks, citing a flat block structure, declining rate blocks and increasing rate blocks as well as the related messages that are sent to consumers. He also outlined other rate options, including time of use rates, interruptible rates, fuel switching rates, seasonal rates and industrial rates. He explained the purposes of a cost of service analysis and the process by which it is completed. He clarified billing determinants and cost allocation factors, and provided the expected results a cost of service analysis would bring for the City. Mr. Heberling answered questions from the Council.

Councilmember West asked about the rate for the shipyard, and she was told we are under contract for another 26 years.

Moved by Sivertsen, seconded by Shay the City Council authorize the general manager to enter into a professional services agreement with D. Hittle & Associates, Inc. at a cost not to exceed \$28,000 for development of the Cost of Service Model, Phase 2 of the Rate Structure Project and approve funding from the Electric Division's 2011 Professional Services Account No. 60.

Motion passed with Coose, Jason Harris, West, Kj Harris, Sivertsen, Olsen and Shay voting yea.

MAYOR AND COUNCIL COMMENTS

Councilmember Coose felt we weren't doing much about conservation education, and he suggested a future agenda item that may appropriate some money to get that done. He wondered if we could look at what Juneau did when they needed conservation real quick, and then put a little money where our mouth is. He also commented on the increase in the mill rate, and he encouraged the Council to look at their budget books on Pages E 1-3, where it shows revenue increases over the past years. He said we have charged people for stuff, but from the standpoint of the mill rate the assessed valuation in that period of time has doubled. Consequently, he continued, our revenue doubled. He said people are paying; we just need to manage money the right way.

Councilmember Kj Harris commented about the mill rate from last week, noting there was a little blurb in the paper that misquoted the amount of the increase. He felt if there was a headline on the front page, a correction should have been put on the front page instead of the second page. He suggested if the article was on the front page, the retraction should have been on the front page.

Councilmember Shay said he was impressed with the adoption of the mission statement of the KPU Advisory Board. He thanked Member West and the other members of the Advisory Board for their work on this, and he hoped they could get into assisting as requested. He pointed out the Council voted for the new library, the new fire hall, there

June 9, 2011

are a whole lot of drainage problems, the reserves have gone down more than \$1 million in less than a year, and he felt the mill rate increase was a responsible act. He said the debt service alone is going to be a tremendous burden and he thought it was a step in the right direction. He said he is looking forward to the electrical tour.

Councilmember West thanked Mr. Kline for his work and service to the community, and she is sorry he and his family are leaving and wished them the best.

Councilmember Sivertsen said we need to start investing in advertising for conservation, but he felt the City would be remiss if it didn't get together with SEAPA because he felt they have as large a stake in this as the City does. He said we can come up with a plan where we are working on the same page to get the same information out; he would like to see some sort of coordination.

Councilmember Jason Harris thanked the consultants, Mr. Kline and Mr. Carlson for the great presentation. He said he knew it wasn't a small task. He agreed the education will be a key piece of this, and it will need to go from school aged kids to the elderly. He hoped to see a really strong campaign effort, and he felt the Council needed to do its share as well in talking about it.

Mayor Williams thanked everyone for the presentation and felt we are doing something that the Council has been doing for years: keeping on top of these things so there isn't a big surprise. He said he was happy to see in the presentation that we have only raised rates since 1994 approximately 9.4%. He said last week we raised the mill rate a tenth, the first time in 20 years. He pointed out this means the Council is concerned about the public and we keep our budgets tight and don't spend frivolously. He said everyone who sits there is thinking about the constituents.

ADJOURNMENT

As there was no further business, the Council adjourned at 9:05 p.m.

Lew Williams III, Mayor

ATTEST:

Katherine M. Suiter
City Clerk