

HIBBING PUBLIC UTILITIES Steam Presentation

August 28, 2019

HIBBING PUBLIC UTILITIES

- ▶ Hibbing Public Utilities Commission (HPU)
- ▶ History
- ▶ Governance
- ▶ Power Plant - Cogeneration
- ▶ Steam Plan

HIBBING PUBLIC UTILITIES

“Who we are”

- ▶ Celebrated its 100th anniversary in 1995. The current Power Plant has been at its current location for 100 years this year.
- ▶ Owns and operates a co-generation power plant providing steam to central Hibbing only.
- ▶ Purchases (majority) and generates (minority) electricity to the majority of non-rural City of Hibbing residents.
- ▶ Produces and distributes water and distributes natural gas to the City of Hibbing, and outlying areas such as Kitzville, Kelly Lake, airport.
- ▶ Mission - Providing quality utility services at competitive rates.

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“Our History”

- ▶ 1894 Hibbing Light and Water Company was incorporated
- ▶ Water was the first utility
- ▶ Power plant furnished electric lighting
- ▶ 1907 State of MN approved creation of Water, Light, Power and Building Commission in cities
- ▶ 1919 steam heating system was installed

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“Our History”

- ▶ 1949 became the Public Utilities Commission of Village of Hibbing
- ▶ 1967 gas distribution system was extended
- ▶ 1978 13 wells and two elevated tanks capacity of 600,000 gallons
- ▶ 1995 served 7,001 electric, 5,651 water, 3,004 natural gas, and 1,411 steam customers
- ▶ 2019 serving 6,982 electric, 5,685 water, 4,497 natural gas, and 1,065 steam customers (Dec 2018)

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“Governance”

- ▶ Created by and authority granted by MN State Statues - 1949
- ▶ City Council Appoints five (5) Commission members
- ▶ One Commissioner can also be a City Councilor
- ▶ Commission members are appointed for three year terms
- ▶ Open meetings
- ▶ Commission meets twice per month - second and fourth Tuesdays
- ▶ The Commission is owned by the City; however, it is a separate entity

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“Governance”

- ▶ Commission collectively as a whole has the authority to:
 - ❖ Set utility rates
 - ❖ Control finances
 - ❖ Establish policy
 - ❖ Enter into contracts
 - ❖ Regulate activities of the Utilities
 - ❖ Hire the General Manager
- ▶ Individually a commission member has no authority

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“Power Plant - Cogeneration”

- ▶ Power Plant cogeneration production - electric and steam
- ▶ LEA - 2007-2018 - joint venture between Virginia PU and Hibbing PU - selling renewable electricity to Xcel Energy.
- ▶ Electric and Steam were interrelated - prior to July 2018.
- ▶ Limited ability for cost-efficient HPU electrical production in the 2019 energy market. Result, today's Power Plant is Steam driven.

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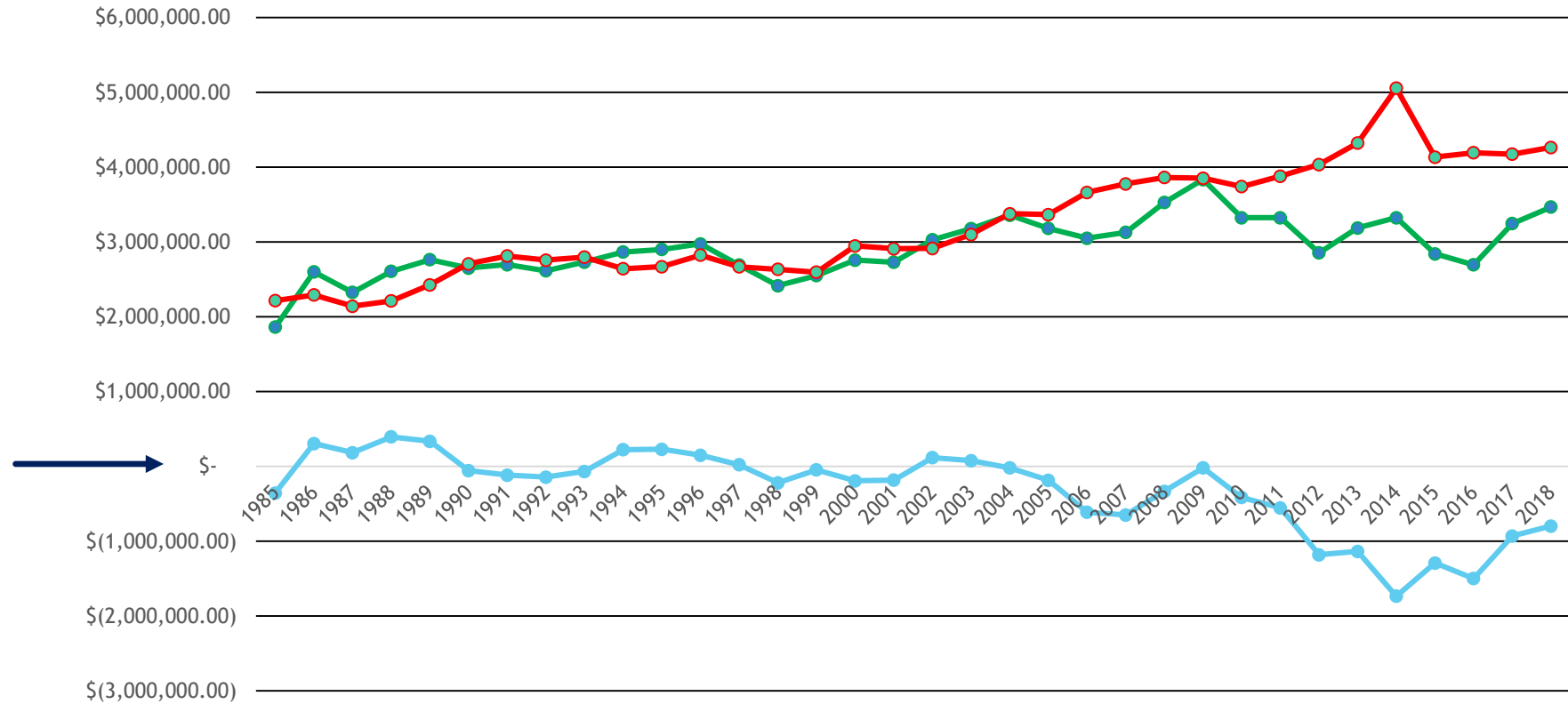
“Cogeneration Electric & Steam”

- ▶ Winter of 2018-19 - electricity produced with steam sent to the Steam District.
 - ▶ Roughly 13,000,000 kWh. July 1, 2018 - June 30, 2019 (12-month) total production.
 - ▶ During the same period, HPU purchased nearly 130,000,000 kWh from Minnesota Power (MP).
 - ▶ Winter 2019-20 electrical production opportunities do not exist unless a mutually agreeable contract is negotiated with MP.
- ▶ Calendar year 2018 - Power plant sent 390,000 k# of steam to the heating district.
- ▶ Calendar year 2018 - HPU sold 197,000 k# steam to our customers.
- ▶ Calendar year 2018 - less than 10% of condensate is returning to the Power Plant.

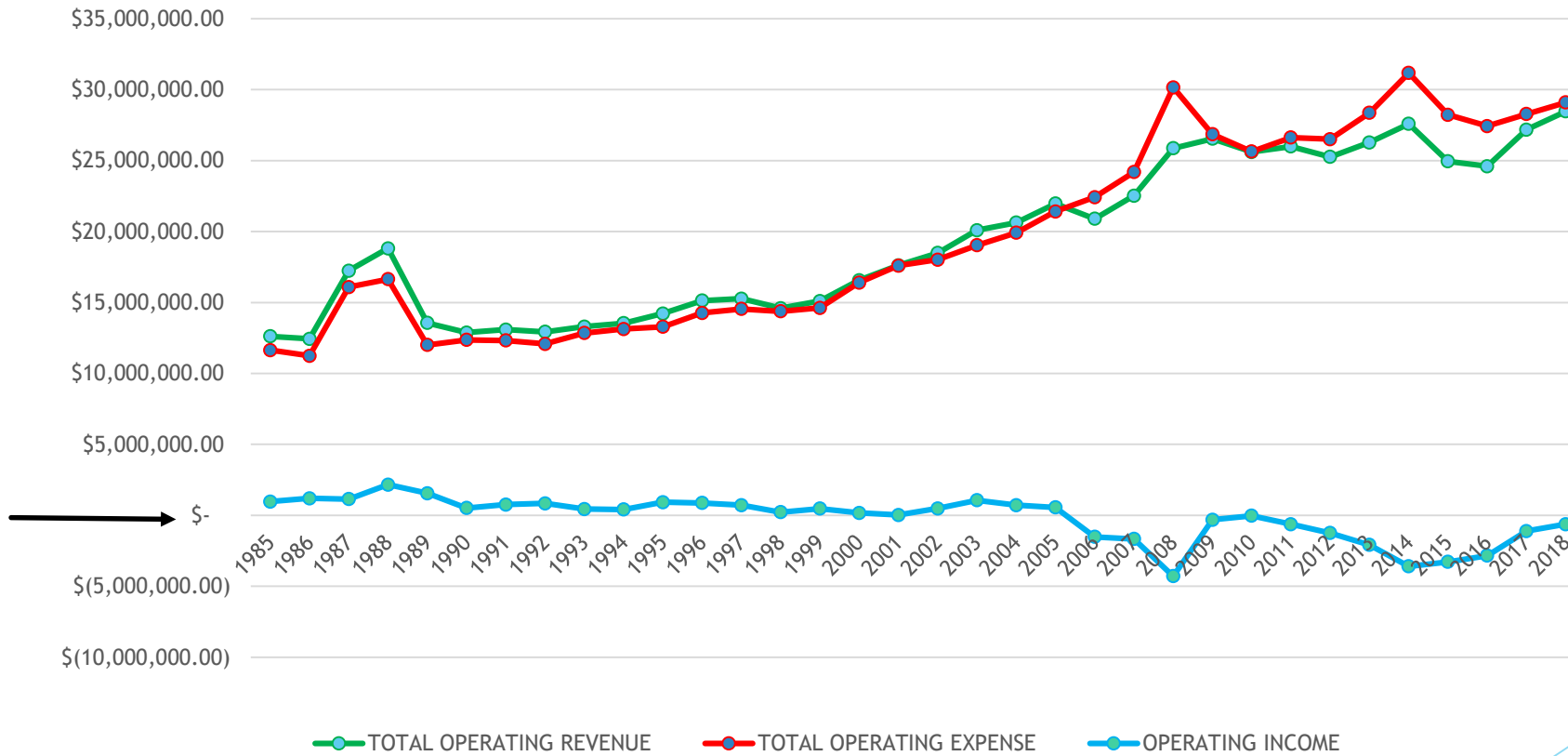
HIBBING PUBLIC UTILITIES STEAM PLAN

- ▶ Revenues/Income
- ▶ Customers
- ▶ Conversion from steam to gas
- ▶ Loan program for conversion
- ▶ Future of steam utility

Steam Operating Revenue, Expense, & Net Operating Income (Loss) 1985 - 2018



HPU Total Operating Revenue, Expense, & Net Income (Loss) 1985 - 2018



Source - HPU Audited Financial Statements

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“Income/Customers”

- ▶ Income (*preliminary*)
 - ▶ 2019 Actual July YTD Steam has an operating loss of \$2,442,664.
 - ▶ 2019 Annual Budget Steam had an operating loss of \$5,668,471.
 - ▶ 2019 Steam is doing better than budget, still a long way to go to get to neutral.
- ▶ Customers
 - ▶ 2018 - approximately 31 customers converted from steam to another utility
 - ▶ 2019 - From 09/16/2018 through 8/23/2019 there are 103 gas applications for steam conversions. 160 total gas applications.
 - ▶ 2020 budget will have less steam sales due to conversions.

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“Conversion - gas service fee”

- ▶ HPU offers conversion incentives to reduce homeowner heating source costs if converting from steam to natural gas.
 - ▶ HPU’s Natural gas rate is the most economical heat source between steam/electric/natural gas.
 - ▶ Gas service fee (\$800) is waived for steam customers who will convert their entire steam heating needs.
- ▶ Non-HPU fuel source
 - ▶ Steam, gas, oil, or propane - gas service fee (\$800) is waived.

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“Loan Conversion”

- ▶ The Commission has approved a voluntary heat conversion loan program
 - ▶ Highlights
 - ▶ Eligible for a fuel switch from any HPU utility to another HPU utility.
 - ▶ No interest loan - either 5 or 10 year term.
 - ▶ At least two quotes required.
 - ▶ AEOA can provide assistance to the property owner.
 - ▶ Separate monthly bill from the Utility bill.
 - ▶ Still working out loan guarantee method: mortgage, collections, assessments.
 - ▶ Until the loan guarantee method is finalized, HPU will not yet be accepting loan applications.

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“Future of Steam”

HPU will continue to operate its steam distribution system

- ▶ 2019 had a recommitment on steam distribution system repairs/replacements:
 - ▶ North and South Howard Alley manholes - repair all mechanical items and reinsulate the steam line.
 - ▶ Evaluate condensate return main and service replacements in the South Howard Alley. (\$785,000)
 - ▶ Commission 08/27/19 decision: If HPU replaces condensate return mains, in that area, HPU will seek to acquire and replace condensate return service lines that are not flowing condensate.
 - ▶ Install more accurate steam meters.
- ▶ There has been no decision to downsize or eliminate steam to any current customer.
- ▶ Any downsizing or elimination of the steam district requires the Commission, City Council, and a special election public vote. *(MN Attorney General's office opinion)*.
- ▶ If there is a downsizing, a property-owner would have several years to convert their heat source.

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“Future of Steam”

- ▶ HPU will continue to operate its Power Plant - primarily producing steam
- ▶ 2018-2020 Steam Production cost reduction activities:
- ▶ Significant reduction of Plant Operations and Maintenance personnel to fit the new plant operations mode.
- ▶ During summer operations, transferred Plant personnel to Distribution areas to complete projects.
- ▶ Focused on lower cost fuels - increased focus to burn cheaper natural gas while still having solid fuel flexibility and steam reliability. Boiler 2 gas burner project +\$500,000.
- ▶ Focusing on projects to reduce the power plant’s usage of electricity, water, and steam.

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“Future of Steam”

HPU is at a critical juncture and will continue to plan for the future.

- ▶ Steam expenses are currently more than revenue.
- ▶ Continued focus to reduce steam production and distribution costs.
- ▶ The entire steam distribution system is too large to bring up to “new” standards.
- ▶ Negotiating with MP for a better electric agreement.
- ▶ Approximately \$2 million for an expansion of our gas Town Border Station (TBS) to nearly double the amount of gas to Hibbing.
- ▶ Added additional gas pipeline reservation starting as soon as the TBS is completed for winter heating needs.
- ▶ Buy future gas at today’s low prices to “hedge” future gas costs for our current and converting customers.

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“Future of Steam”

HPU’S long-term plan will strive to deliver the most efficient and cost-effective thermal energy to its customers

- ▶ Natural gas supplied to a customer’s house is more efficient than using natural gas to make steam to supply to a customer’s house.
- ▶ The cost of installing new heating equipment will be partially offset by lower non-steam heating bills.

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“Future of Steam”

HPU will become more efficient in its operations.

- ▶ Working with the Commission, we are striving to transition using a plan that will not include permanent employee lay-offs.
- ▶ Some job positions may not be filled when there are retirements, resignations, or job postings.
- ▶ Employees will be trained for these flexible reassigned duties.

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We look forward to hearing your questions.