



FOR COMMISSION INFORMATION

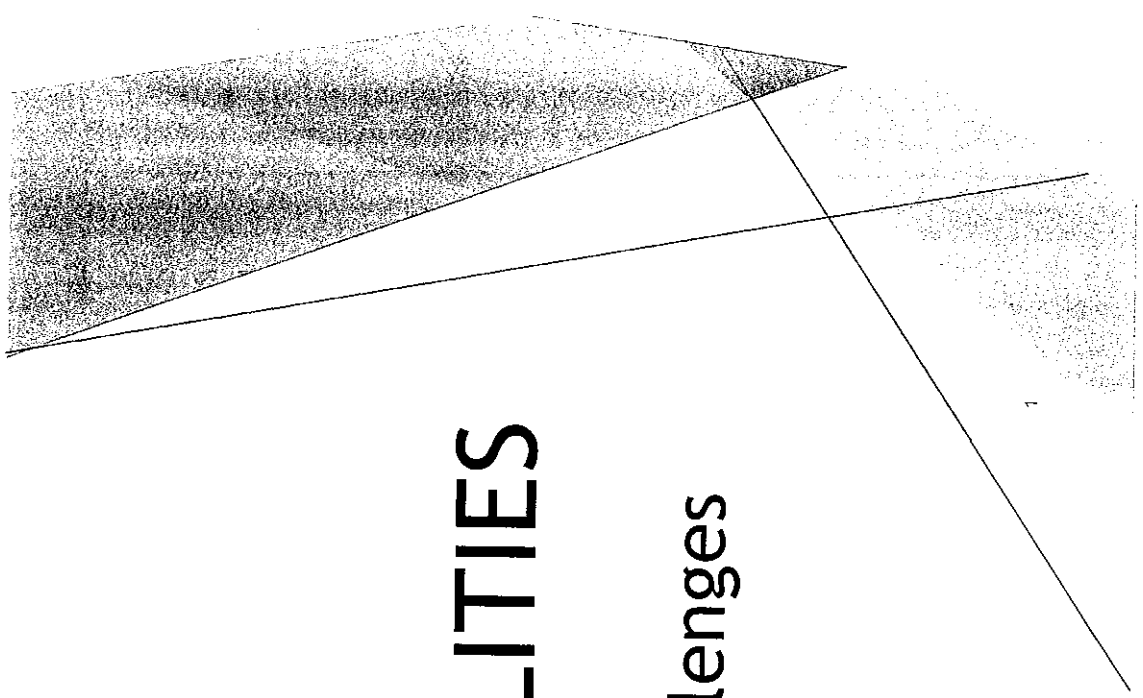
Meeting Presentation Date:	January 14, 2020	Agenda Item No. 8.C.
Subject:	2019 HPU Accomplishments: State of the Utility	
Department Head:	Scott Hautala, General Manager	
Department (Utility)	Utility-Wide <input type="checkbox"/> Production <input type="checkbox"/> Distribution <input type="checkbox"/> Support	
Background/ History	<i>If additional space is required, attach a separate sheet and/or supporting documentation</i>	
Current	At the regular Commission meeting of January 14, 2020, I will present information on the 2019 HPU Accomplishments. At the time of this writing, information is being gathered.	
Action Requested		
Budget Impact	Budgeted: <input type="checkbox"/> Yes <input type="checkbox"/> No <input type="checkbox"/> N/A Amount \$ <input type="checkbox"/> Capital <input type="checkbox"/> Operational	
GM Review/Authorization:	<input checked="" type="checkbox"/> Yes <input type="checkbox"/> No <i>Sum 16 1/14/20</i>	
Supporting Documentation Attached:	<input type="checkbox"/> Yes <input checked="" type="checkbox"/> No	

HIBBING PUBLIC UTILITIES

2019 Accomplishments

2020 Opportunities and Challenges

January 14, 2020



2019 Accomplishments

- ▶ Reinvestment
- ▶ For the first time since before LEA (2007), capital investment outpaced annual depreciation.
- ▶ This investment did not require new loans or bonds.
- ▶ This Commission is taking action and should take credit for authorizing the projects.
- ▶ There has been action in several areas; however, the investments were made primarily in the gas and steam utilities.

Gas

- ▶ Town Border Station upgrade - old 7,500 DTh/day to 14,500 DTh/day
- ▶ Contractual gas capacity - old 6,000 DTh/day to 10,500 DTh/day for Nov-Mar 2019-2024
- ▶ Purchased nearly \$6.5 million of future gas through April 2026
- ▶ Odorizer Upgrade at the Town Border Station
- ▶ New customer gas conversions - wood, oil and propane
- ▶ New customer services (commercial and residential) - total of 184 gas services installed
- ▶ Gas Main extension project - seven
- ▶ Equipment: Trencher / Mini-excavator

Steam

- ▶ Power Plant Boiler 2 Gas burner project
- ▶ Power Plant Boiler #1 and #2 - gas metering and regulation
- ▶ Improved City steam metering at the power plant
- ▶ North and South Howard Alley - mechanical and insulation vault rehabilitation project - 22 vaults repaired; +100 vaults inspected
- ▶ South Howard Alley Condensate Return main (2,800 ft ~ 3.5% of total district) and condensate return service replacements
- ▶ Plant Control Delta V version update
- ▶ Overhauled feedwater pump
- ▶ DA and condensate tank level control, DA venting, and DA metering
- ▶ Steam leak repairs - year 2 of 5
- ▶ Used Wood January - March when Belt 3 gearbox failed - large wood penalty
- ▶ Used full Coal unit train 2019 commitment and negotiated a flexible 2020-21 unit train contract
- ▶ Reduced air emission fee with less solid fuel usage and less steam output - nearly \$16k less (2019-2018); approximately \$29k less (2020 vs. 2019)

Electric

- ▶ North Howard Loop Feed - Year 1 of 2
- ▶ Belt Line and Interconnect 307 transformer oil replacements and repairs
- ▶ City of Hibbing - new Mineview extension
- ▶ Vegetation Control - top 12 areas
- ▶ Medium size line crew truck
- ▶ Annual plant electrical generation test (April 2019) with a simulated MISO call - 13.2 MW gross
- ▶ Average customer had 3.8 outages (10-year average 2.2)
- ▶ Average customer outage was 54.6 (10-year average is 91.3)
- ▶ Average system outage was 207.3 (10-year average is 177.6)
- ▶ Outage reason during 2019 - 46 total (10-year average 48):
 - ▶ Equipment failure - aboveground 15 / underground 4 / substation 5
 - ▶ Nature - animals 2 / weather 2 / trees 2
 - ▶ Human - 10
 - ▶ Power Supplier - 4
 - ▶ Other - 2

Water

- ▶ Redeveloped Wells 2B and 8A
- ▶ Closed legacy municipal Well 2
- ▶ Test bores at Well 3A to determine suitability for replacement (Well 3B)
- ▶ Completed WTP chemical addition automation project
- ▶ Repaired 78 out-of-service (OOS) fire hydrants and returned to service. Result is 76 OOS hydrants 2019 reduced to 17 starting 2020.
- ▶ Repairs to 83 mains, services, and valves (largest Hibbing Community College)
- ▶ Replaced one $\frac{3}{4}$ Ton with 1 Ton truck
- ▶ Performed inspections of all water towers/tanks to develop repair/maintenance plan for 2020.

General

- ▶ Two recordable lost time injuries, much less than previous years.
- ▶ Started labor contract negotiations.
- ▶ Revised chart of accounts resulted in improved reporting of department costs and tracking
- ▶ Implemented interdepartmental utility charges for more accurate cost and revenues for each utility.
- ▶ Developed a job description base template and received Commission approval for 20 job descriptions. 21 remain to be updated.
- ▶ Drafted and revised a voluntary residential heat conversion loan program.
- ▶ Worked with financial institutions to determine if the financial institution would service the loans (for a fee).
- ▶ With Local 94 approval, start using PEIP for active employee medical insurance in 2020 - a cost reduction compared to 2019 and the incumbents proposed rate for 2020.
- ▶ Revised exempt employee benefits - reduces comp time eligibility; allow flex and remote work; eliminates sick leave bonus and longevity pay for employees hired after 1/1/2015; and eliminates furlough.
- ▶ Replaced two light fleet vehicles - meter reader / water and technology hardware and software upgrades

Personnel

- ▶ Personnel Changes January 1, 2019 - 75 / January 1, 2020 - 69. The reduction of six personnel have been accomplished without requiring involuntary layoffs:
- ▶ Power Plant - minus 7
 - ▶ Maintenance Mechanics -2
 - ▶ Operators -1; -1 transfer
 - ▶ Fuel handlers -1; -2 transfers
 - ▶ Instrumentation and Results / Electricians - no change
- ▶ Electrical Linecrew - net zero
 - ▶ Lineworker -1
 - ▶ Apprentice +1
- ▶ Heat Crew / Water Crew - no change
- ▶ Support - Others - net zero
 - ▶ Custodian -1, +1 transfer
 - ▶ Transportation Mechanic +1 transfer
 - ▶ Engineering -1
- ▶ Customer Support / Meter Reading / Meter Repair / Warehouse - no change
- ▶ Management - plus 1
 - ▶ Exempt +1; -1 transfer
 - ▶ Non-exempt +1 transfer
- ▶ Reassigned Custodian and Transportation Mechanics from Director of Finance and Director of Utility Operations (respectively) to Manager of Safety/Environmental/Buildings.

Customers

	Electric		
	2018	2019	Change %
w/o any heat w/ water heater	3,766	3,750	(16) -0.4%
w/ electric heat	1,766	1,765	(1) -0.1%
	565	570	5 0.9%
Total	6,097	6,085	(12) -0.2%

	410	436	26	6.3%
	60	63	3	5.0%
	76	75	(1)	-1.3%
	333	331	(2)	-0.6%
	6	6	-	0.0%

Total	885	911	26	2.9%
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Total Electric customers	6,982	6,996	14	0.2%
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Demand Customers	409	410	1	0.2%
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Water

	2018	2019	Change	%
Residential				
	5,160	5,133	(27)	-0.5%
Residential Total	5,160	5,133	(27)	-0.5%
Commercial				
General	518	523	5	1.0%
Multi-unit	51	50	(1)	-2.0%
Commercial Total	569	573	4	0.7%

Total Water customers 5,729 5,706 (23) -0.4%

* NOTE: Customer count from 12/1 - 12/31 Caselle Rate Summary Report

Gas			
2018	2019	Change	%
279	285	6	2.2%
3,735	3,805	70	1.9%
4,014	4,090	76	1.9%
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90	102	12	13.3%
393	398	5	1.3%
5	3	(2)	-40.0%
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488	503	15	3.1%
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4,502	4,593	91	2.0%

Steam			
2018	2019	Change	%
943	884	(59)	-6.3%
943	884	(59)	-6.3%
111	100	(11)	-9.9%
10	9	(1)	-10.0%
1	1	-	0.0%
122	110	(12)	-9.8%
1,065	994	(71)	-6.7%

2020 Opportunities

- ▶ Complete RFP, Award RFP, and start Smart Customer Metering (AMI) installation.
- ▶ Reduce workers compensation insurance costs by less work place injuries.
- ▶ Redesign Engineering department and hire personnel for those positions.
- ▶ Find a buyer for our electrical capacity through MISO planning year 2024.
- ▶ Monitor and track power plant reduced costs of returning additional condensate.
- ▶ Reduce steam leaks, maintain steam vaults, and return more condensate from customers.
- ▶ Purchase additional future gas - through 2030 - will require HPU to be credit-worthy by 2026 to find a willing seller for reasonable rates.
- ▶ Electrical generation gas engine.
- ▶ Substation and medium voltage distribution.

2020 Challenges

- ▶ Review property and equipment insurance providers and determine a reasonable premium.
- ▶ Complete an agreement with a financial institution to perform the loan services for the voluntary residential heat conversion loan program.
- ▶ Complete Labor Contract negotiations that provide a flexible workforce.
- ▶ Determine what steam district areas could be downsized and continue with steam distribution project to make the core steam district more efficient.
- ▶ If all parties (Commission/City/Voters) agree with a core steam plan, start implementation of a mandatory partial steam district conversion.
- ▶ Monitor water system while Scranton Well is out of service and develop fast deployment backup plans should water usage exceed production.
- ▶ Invest in projects that have cost/benefit justification - cost saving reduction is more than the added depreciation.

State of the Utility – January 2020

Scott Hautala Jan 14, 2020 HPU Commission Meeting

HPU History 2015-2019

Electrical Market Review – Cogeneration

Municipal Heating District Review

2019 Accomplishments

2019 Organizational Changes

2019 Customers

2020 Opportunities and Challenges

HPU 2015-2019 History

Good evening, Commissioners;

In the spring of 2015, HPU had just completed a long hard run of carrying the majority of LEA electrical generation load. At HPU, Bob Nyberg, Director of Power Production, and staff were preparing for “standard” turbine/generator overhauls and providing electricity to LEA for wholesale power to Xcel Energy through December 2026 and steam to HPU’s city steam customers. There were a total of forty (40) Operators/Fuel Handlers/Maintenance personnel on February 2016.

During 2017, this 20-year agreement took a 180-degree turn, barely halfway through the agreement. Xcel Energy approached LEA for a Purchase Power Agreement termination as the over \$100/MWh biomass energy was no longer competitive renewable energy compared to lower cost wind and solar generation.

LEA negotiated a termination agreement that included \$108.5 million from Xcel, and with the assistance of our legislative representatives, \$34 million from the state Renewable Development Fund (RDF). After paying off the LEA bonds, this results in approximately \$64 million to both HPU and VPU. HPU believed that we could use those funds to transition HPU from operating with annual losses to better than breaking even from ongoing operations. With proper projects, each utility should be able to not only break even, but develop operating reserves for future investment.

During the last four (4) years, Springsted, a consulting firm hired by HPU, provided a financial and organizational design study that have been used as the framework for HPU organizational design. In addition, HPU utilized HDR to provide its expertise on several scenarios for long term planning efforts. These studies common outcome was to provide plans, policies, and processes for HPU to break even, or better on an ongoing basis.

The state of the utility starting 2020, is we have not achieved breakeven status, nor should we be only 18 months from ending the LEA electrical agreement. The 2019 actual financial results are better than budget. However, the proposed 2020 budget again is presented at an operating loss. We need to maintain our focus on cost reduction, specifically a flexible workforce and efficiency projects that will reduce operating costs.

Currently, there are twenty-six (26) Operators/Fuel Handlers/Maintenance personnel at the Power Plant during the 2019-2020 heating season. This lower workforce more closely matches the reduced plant output. In addition, during summer operations, plant personnel are transferred to utility distribution projects when solid fuels are not being used for steam generation, thus reducing steam production costs.

The financial fact is that despite these labor reductions and more efficient operations, the steam utility still needs to obtain several million dollars of cost reductions per year in order for the steam utility to break even by itself and not increase steam rates. If steam does not break even, a portion of our LEA termination payments will be utilized to shore up the operating deficit so that electrical, gas, and water customer rates will not need to be increased to cover the steam utility operating deficit.

The LEA PPA termination payments comes to an end - the last LEA termination payment to HPU is made on June 2023. Reducing operating steam financial losses is the prime directive. However, HPU cannot

ignore the other utilities. If we can reduce our costs in any utility or support department, the respective utility rates can become stable. For example, smart customer metering will allow better customer service at reduced support service costs and opportunities for off-peak rates and demand side management. Smart metering will reduce our labor costs and provide additional customer electrical rates that will drive further efficiency savings for the customer and to HPU.

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Electrical Market Review – Cogeneration

I am often frustrated that, seeing the numbers and energy markets, that I cannot clearly communicate to the Commission, much less the average customer what happened in the American energy market that does not allow Hibbing to make full use of our power plant as an electrical and steam facility. So please allow me some time to provide an assessment of the electrical Midwest market before providing our 2019 highlights.

When I made my first Post-LEA-Xcel Termination presentation to the Hibbing Chamber in 2018, I titled my presentation “Back to the Future” as I was attempting to portray that the electrical plant’s purpose had reverted back to steam generation vs. LEA electrical generation. Since that 2018 speech, I have come to the conclusion that there is no going back. The reason why we cannot go back is the electrical market of 2000-2005 no longer exists.

Due to the addition of gas-fired generation and the increasing mandates for renewable generation across the country including the Midwest, today’s electrical generation has to be nimble and quick to respond to changing markets. If there are opportunities when the energy market allows for electrical generation, the generation asset needs to deliver reliable and short duration operations with short start and shutdown times to comply with market pricing. HPU’s steam-driven turbine/generator with a circulating cooling system does not provide the ability to produce economical energy in today’s electric market on that required short-term basis.

HPU’s steam generation for heating and our steam generation needed for electrical generation is out-of-balance to run as an efficient co-generation plant. During 2019, HPU purchased nearly 129,000 MWh from MP. Using a factor of one MW generated requiring 15 K# steam, this would require 1,935,000 K# of steam to be produced in the boilers. The total steam sent to the district for 2019 totaled approximately 361,000 K#. This means that HPU would need to make 80% more steam to produce electricity for all of Hibbing’s electrical load. We can purchase energy for \$20/MWh. HPU’s production cost for electrical only is still well above this amount.

Discussions continued with our incumbent electrical supplier, MP. Our discussions generated a 12-month Bridge agreement that allowed for some capacity and energy sales and credits and to better understand the amount of generation operating post-LEA. This agreement expired in June 2019 and the 2nd half of 2019 resulted in additional electrical costs of \$234,000 (loss of 2 MW capacity credit) and \$19,000 of capacity revenue not received. A new agreement with MP was signed in December 2019 that will allow HPU energy only sales from the steam sent to the steam district through our back-pressure turbine. For reference, the sales value for roughly half of December 2019 energy sales was \$22,000.

In today's electrical Midwest operating area, generation capacity has a very low financial value. Also through tax-incentives, solar and wind generation have decreased the cost of energy. The financial value of electrical capacity and energy sales that HPU may be able to recognize in today's electrical market with our existing equipment are in the range of +/- \$500,000/year, not the \$3-5 million dollar reduction that was seen in the early 2000's with an economy power contract. This reality will continue most certainly, unless there is some federal or state program to provide a funding incentive for HPU's co-generation heating district.

In October 2019, the Commission, through recommendation from the MP negotiating committee, determined that MP's offer for an extended contract did not meet the long-term needs of HPU ratepayers. Additional efforts are being made to leverage HPU's equipment for as much value that HPU can find through 2024, the end of the MP contract, and beyond. Finally, the NE Minnesota Municipal Power Agency (NEMPPA) is evaluating consultants that would draft an electrical purchase Request for Proposal (RFP) starting in 2025.

In summary, electrical capacity and energy revenue from a co-generation power plant by itself are insufficient for steam production to break even. If steam does not break even, there are three options the Commission can employ to reduce the steam utility operating loss:

- Raise steam rates – short and long term
- Transfer funds from LEA PPA termination - short term, ends June 2023
- Raise other utility rates to make-up for steam utility shortage – short and long term

Municipal Heating District Review

With the Willmar heating district shutdown in 2019 (the power plant will be closed by July 1, 2020), I am aware of only four heating districts remaining in Minnesota – Virginia, Duluth, St. Paul, and Hibbing.

Virginia is starting year 3 of a 4-year plan to downsize its steam district (North and South side). At the end of the four years, my understanding is VPU's district will be the same size (in miles) HPU is operating today.

Ever-Green Energy operates both the Duluth Energy (hot water with some steam in downtown Duluth) as well as St. Paul (hot water only). Duluth and St. Paul have density working in their favor. For example, Duluth Energy has the same sales as HPU with a much smaller district than Hibbing. Both metro areas face "green" pressure and have or are seeking to eliminate coal as a fuel source for their heating districts.

2019 Accomplishments

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Steam:

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 - Equipment failure – aboveground 15 / underground 4 / substation 5
 - Nature – animals 2 / weather 2 / trees 2
 - Human – 10
 - Power Supplier – 4
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Water:

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- Closed legacy municipal Well 2
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General:

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Organizational Design Changes

Personnel Changes January 1, 2019 - 75 / January 1, 2020 – 69. The reduction of six personnel have been accomplished without requiring involuntary layoffs:

- Power Plant - minus 7
 - o Maintenance Mechanics -2
 - o Operators -1; -1 transfer
 - o Fuel handlers -1; -2 transfers
 - o Instrumentation and Results / Electricians – no change
- Electrical Linecrew – net zero
 - o Lineworker -1
 - o Apprentice +1
- Heat Crew / Water Crew – no change
- Support - Others – net zero
 - o Custodian -1, +1 transfer
 - o Transportation Mechanic +1 transfer
 - o Engineering -1
- Customer Support / Meter Reading / Meter Repair / Warehouse – no change
- Management – plus 1
 - o Exempt +1; -1 transfer
 - o Non-exempt +1 transfer
- Reassigned Custodian and Transportation Mechanics from Director of Finance and Director of Utility Operations (respectively) to Manager of Safety/Environmental/Buildings.

Customers by utility

Electric

Residential		2018	2019	Change	%
Residential	w/o any heat	3,766	3,750	(16)	-0.4%
Residential	w/ water heater	1,766	1,765	(1)	-0.1%
Residential	w/ electric heat	565	570	5	0.9%
Residential	Total	6,097	6,085	(12)	-0.2%
Commercial					
General Service		410	436	26	6.3%
Municipal		60	63	3	5.0%
Power Service		76	75	(1)	-1.3%
Small Power		333	331	(2)	-0.6%
Large Power		6	6	-	0.0%
Commercial	Total	885	911	26	2.9%
Total Electric customers					
		6,982	6,996	14	0.2%
Demand Customers					
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Residential	Heat	3,735	3,805	70	1.9%
Residential	Total	4,014	4,090	76	1.9%
Commercial					
General		90	102	12	13.3%
Heat		393	398	5	1.3%
Interruptible		5	3	(2)	-40.0%
Commercial	Total	488	503	15	3.1%
Total Gas customers		4,502	4,593	91	2.0%

Steam

		2018	2019	Change	%
Residential		943	884	(59)	-6.3%
Residential	Total	943	884	(59)	-6.3%
Commercial					
General		111	100	(11)	-9.9%
Industrial		10	9	(1)	-10.0%
Live		1	1	-	0.0%
Commercial	Total	122	110	(12)	-9.8%
Total Steam customers		1,065	994	(71)	-6.7%

2020 Opportunities

- Complete RFP, Award RFP, and start Smart Customer Metering (AMI) installation.
- Reduce workers compensation insurance costs by less work place injuries.
- Redesign Engineering department and hire personnel for those positions.
- Find a buyer for our electrical capacity through MISO planning year 2024.
- Monitor and track power plant reduced costs of returning additional condensate.
- Reduce steam leaks, maintain steam vaults, and return more condensate from customers.
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