



CITY OF LE SUEUR  
REQUEST FOR COUNCIL ACTION

TO: Mayor and City Council  
FROM: Richard Kucera, Public Services Director  
SUBJECT: Electric Rate Study  
DATE: For the City Council Meeting of Monday April 27<sup>th</sup>, 2020

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**PURPOSE**

Consider approval of Task Order Number 4 project named Electric Rate Study from DGR Engineering.

**SUMMARY**

City staff has identified a need for an electric system rate study of the existing electric rates. The basic study will answer adequacy of revenue levels, definition of existing rate classes, reviewing existing rate structures, a cost-of-service analysis and recommendations of necessary rate changes. We will also be performing additional analysis and rate alternatives for large industrial customers, cash flow modification through service territory acquisition and preparation of a spreadsheet model for staff to use in the future. The schedule is to have the final study to City Council in December.

DGR Engineering is also currently working on two other tasks for the City. One is the Distribution System Planning Study and the other is the Highway 112 Distribution Improvements. The Distribution System Planning Study will be used for the finalizing of the Electric Rate Study.

The Electric Rate Study was identified in the 2020 Capital Improvement Plan/Capital Equipment Plan.

**ACTION REQUESTED**

Staff is recommending that City Council approve the execution of Electric Rate Study from DGR Engineering for a not to exceed fee of \$31,500.00.

## TASK ORDER

Task Order No.   4  

Effective Date: \_\_\_\_\_

### **Task Order Amendment to the DGR ENGINEERING Master Agreement for Professional Services**

DGR Engineering (Consultant) agrees to provide to:   Le Sueur Municipal Utilities - Le Sueur, Minnesota   (Client), the professional services described below for the Project identified below. The professional services shall be performed in accordance with and shall be subject to the terms and conditions of the Master Agreement for Professional Services executed by and between Consultant and Client on the   11<sup>th</sup>   day of   November  ,   2016  .

**TASK ORDER PROJECT NAME:** Electric Rate Study - 2020

**TASK ORDER PROJECT DESCRIPTION:** Le Sueur Municipal Utilities (LMU) wishes to complete a study of the retail electric rates for the customers of its municipal electric system, as described in the Scope of Work below.

**DGR CONTACT PERSON:** Blair A. Metzger, P.E. - President

**CLIENT CONTACT PERSONS:** Richard Kucera, Public Services Director  
Justin Anderson, Electric Superintendent

### **SCOPE OF WORK – BASIC STUDY:**

#### **Study Overview – Basic Study:**

Our study will include the following general items, which will answer the associated questions:

1. Analysis of adequacy of revenue levels to provide adequate cash flow for expenses, debt service, transfers, and reserves (is the current level of overall revenue adequate to cover all expenses of the utility, and to maintain sufficient reserve levels?).
2. Review of the definition of existing rate classes (are the existing rate classes made up of the appropriate customers, or should more or fewer classes be established?).
3. Review of the existing rate structures (are current rates structured in a manner that sends the appropriate pricing signals to customers, and are reflective of current utility industry norms?).
4. Conduct a Cost-of-Service analysis, to determine the required contribution of each rate class to overall revenues (which customer classes, and which customers within a class, ought to pay what portion of the overall revenues of the utility?).
5. Develop recommendations of necessary rate changes to provide equitable allocation of costs to classes and to customers within a class, and to achieve the desired level of revenue overall.

## **Study Process & Scope of Work - Basic Study:**

In order to address the general concerns listed above, we would propose to do a rate study in accordance with the following outline:

1. **Initial Data Collection and Analysis**
  - a. Receive and process revenue and usage data by classes of consumers.
  - b. Collect revenue and usage data for large power users on an individual basis.
  - c. Collect and analyze historical financial data for the electric utility.
  - d. Assemble load data for the utility as a whole.
  - e. Collect historical and projected power supply cost data.
2. **Fiscal Requirements Establishment**
  - a. Project future system loads and power costs, using information provided by the utility's power supplier as a basis.
  - b. Develop an estimate of system expenses and cash requirements for the next ten fiscal years, including the estimated costs of system improvements recommended in the concurrent Electric System Study, as well as estimated costs for annual expenditures related to "regular" capital and inventory expenditures.
  - c. Determine a recommended target level for the unrestricted funds balance.
  - d. Determine whether the present level of revenue is adequate, and if not, what level of overall rate adjustments will be required to maintain a strong financial position.
3. **Rate Classification & Structure Review**
  - a. Review existing rate classes and descriptions for suitability.
  - b. If advisable, and in accordance with current industry practices, propose changes to rate classes, both in terms of which customers are in what rate classes, and in terms of how the retail rate to each class is structured.
4. **Cost of Service Analysis**
  - a. Functionalize all costs of the utility into cost categories.
  - b. Estimate contributions of each rate class for capacity-related costs.
  - c. Allocate costs to each rate class using industry-standard methodologies.
  - d. Determine the appropriate revenue level for each rate class.

5. Summarize Results of Study

- a. Propose new rates, classifications, and rate structures as developed by the study.
- b. Propose rate structures that are easy for the consumer to understand and simple for the utility to apply.
- c. Furnish draft conclusions to utility staff and discuss and review. Incorporate staff and/or City Council feedback into the development of additional rate options.
- d. Summarize all findings and recommendations in a brief written summary document, for distribution to utility staff and the City Council.
- e. Provide tables showing comparisons of the impact of new rates as compared to existing rates. This will be done by usage level for residential and small commercial customers, and by specific customer for large commercial customers, assuming data is available.
- f. Provide comparisons of the proposed rates to other regional utilities and other MMPA member communities.
- g. Produce a formal, bound, written report summarizing conclusions and presenting data tables produced during the study (**optional**).

**SCOPE OF WORK – SPECIAL ANALYSIS:**

**Study Process & Scope of Work - Special Analysis:**

The following scope of work describes additional special aspects of analysis that will be completed:

- a. Additional analysis and rate alternatives development for certain Large Industrial customers. The customers on this list is to be determined by LMU.
- b. Modification of the financial/cash flow spreadsheet to include financial evaluation of the possible addition of customers who may be added to the LMU system through service territory acquisition.
- c. Preparation of a spreadsheet model that could be used in the future by LMU to estimate annual adjustments in rates necessary to cover anticipated cash needs.

**FEE ARRANGEMENT:**

<b><u>Segment</u></b>	<b><u>Fee Amount</u></b>	<b><u>Fee Type</u></b>
Basic Study – Items 1, 2, 3, 4, and 5a through 5f.	\$22,500	Hourly -Estimated
Optional: Basic Study - Item 5g (Formal Bound Report)	\$2,000	Hourly-Estimated
Special Analysis – Items a through c.	\$7,000	Hourly-Estimated

All hourly work would be billed at the then-current hourly fee schedule (2020 Hourly Fee Schedule attached).

**SCHEDULE:**

We estimate the following timetable for this work:

Authorization to proceed:	May 1, 2020
Data gathering complete:	June 15, 2020
Initial rate study analysis complete:	September 15 2020
Proposed rate changes complete:	November, 2020
Finalize study:	December 2020

Adherence to the schedule shown above will depend on a number of things, including the availability of data; availability of capital cost information that will be developed in the concurrent Electric System Study; and potential outside matters (such as impacts caused by the current global pandemic).

**SPECIAL TERMS AND CONDITIONS: None**

**Le Sueur Municipal Utilities**  
**Le Sueur, Minnesota**

(Client)

**DeWild Grant Reckert and Associates Company**  
**d/b/a DGR Engineering**

(Consultant)

By: \_\_\_\_\_

By: \_\_\_\_\_

Title: \_\_\_\_\_  
(Authorized signature and Title)

Title: \_\_\_\_\_  
(Authorized signature and Title)

Address: \_\_\_\_\_

Address: 1302 South Union Street

City: \_\_\_\_\_

City: Rock Rapids, IA 51246

Date: \_\_\_\_\_

Date: \_\_\_\_\_

APPENDIX I

DGR ENGINEERING

JANUARY 2020

HOURLY FEE SCHEDULE A

Personnel Grade	Engineer Hourly Rate	Technician Hourly Rate	Administrative Hourly Rate
01	\$93	\$54	\$48
02	\$98	\$59	\$50
03	\$103	\$64	\$54
04	\$109	\$68	\$58
05	\$118	\$72	\$62
06	\$130	\$76	\$66
07	\$140	\$81	\$70
08	\$150	\$87	\$76
09	\$162	\$93	\$82
10	\$173	\$98	\$88
11	\$185	\$103	\$96
12	\$197	\$108	\$108
13	\$210	\$114	\$125
14	\$216	\$122	\$154
15	\$222	\$132	\$202

Reimbursable Expenses:

1. Standard vehicle mileage at the IRS standard 2020 mileage rate.
2. Survey/staking/heavy duty trucks at \$0.80 per mile.
3. Other travel, subsistence, lodging at actual out-of-pocket cost.
4. GPS Survey Equipment (when used) at \$31.25 per hour.
5. ATV and UTV Equipment (when applicable) at \$12.50 per hour.