

**MINUTES OF THE JOINT SPECIAL MEETING OF THE AMES CITY COUNCIL AND
ELECTRIC UTILITY OPERATIONS REVIEW & ADVISORY BOARD**

AMES, IOWA

JUNE 18, 2024

The Joint Special Meeting of the Ames City Council and Electric Utility Operations Review & Advisory Board (EUORAB) was called to order by Mayor John Haila at 6:00 p.m. on the 18th day of June, 2024, in the City Council Chambers in City Hall, 515 Clark Avenue, pursuant to law. Present were Council Members Bronwyn Beatty-Hansen, Gloria Betcher, Amber Corrieri, Tim Gartin, Rachel Junck, and Anita Rollins. *Ex officio* Emily Boland was absent. Representing EUORAB were Jeff Witt and Jonathon Fleming.

CONSENT AGENDA: Moved by Betcher, seconded by Gartin, to approve the consent agenda.

1. Motion approving request from Discover Ames for Fireworks Permit for display from ISU Parking Lot G10 East of Jack Trice Stadium at 10:00 p.m. on July 3, 2024, with a rain date of July 5, for Independence Day Celebration

Roll Call Vote: 6-0. Motion declared carried unanimously.

SECOND READING ON ZONING TEXT AMENDMENT TO THE ZONING ORDINANCE FOR A NEW EXCEPTION AND RELATED STANDARDS FOR OUTDOOR STORAGE IN THE GENERAL INDUSTRIAL (GI) ZONING DISTRICT:

Moved by Corrieri, seconded by Beatty-Hansen, to pass on second reading Zoning Text Amendment to the Zoning Ordinance for a new exception and related standards for outdoor storage in the General Industrial (GI) Zoning District.

Roll Call Vote: 6-0. Motion declared carried unanimously.

SECOND READING ON REZONING 2212 OAKWOOD AND ADJACENT RIGHT-OF-WAY FROM AGRICULTURAL (A) TO SUBURBAN RESIDENTIAL LOW DENSITY FLOATING ZONE (FS-RL): Moved by Betcher, seconded by Rollins, to pass on second reading an ordinance on Rezoning 2212 Oakwood and Adjacent Right-of-Way from Agricultural (A) to Suburban Residential Low Density Floating Zone (FS-RL).

Roll Call Vote: 6-0. Motion declared carried unanimously.

SECOND READING OF ORDINANCE RELATING TO ZONING TEXT AMENDMENT FOR 20% ALTERNATIVE DESIGN ADJUSTMENT TO GENERAL AND BASE ZONE DEVELOPMENT STANDARDS: Moved by Corrieri, seconded by Rollins, to pass on second reading an ordinance relating to Zoning Text Amendment for 20% Alternative Design Adjustments to General and Base Zone Development Standards.

Roll Call Vote: 6-0. Motion declared carried unanimously.

SECOND READING ON ZONING TEXT AMENDMENT ON UPDATES TO CHAPTER 9 FLOOD PLAIN ZONING REGULATIONS: Moved by Rollins, seconded by Corrieri, to pass on second reading Zoning Text Amendment on updates to Chapter 9 Flood Plain Zoning Regulations.

Roll Call Vote: 6-0. Motion declared carried unanimously.

WORKSHOP ON ELECTRIC SERVICES COST OF SERVICE STUDY: Director of Electric Services Donald Kom welcomed the EUORAB members in attendance and explained that a cost of service study compares the rates users pay with the actual costs of providing electricity to customers. He noted that the results of the study led staff to recommend some restructuring of current rates, but emphasized that the restructuring is not a rate increase. Director Kom then introduced Consultant Mark Beauchamp of Utility Financial Solutions, LLC, who presented the results of the cost of service study.

Consultant Beauchamp explained that the utility's revenue requirements were determined with three key financial targets: the debt covered ratio, the minimum level of cash needed to maintain in reserves, and the optimal operating target, which functions as a ceiling rather than a target. These factors are considered with the overall goal of identifying a rate track that keeps the utility financially stable while minimizing the impact of rate increases on customers. Small adjustments to existing rate structures and new rate classes can shift revenues closer to matching the costs of service without a rate increase.

Next, Consultant Beauchamp explained the assumptions relied upon in the cost of service study, sharing the figures used for inflation, minimum cash reserves, debt coverage ratio, and optimal operating income. Consultant Beauchamp clarified for Council Member Gartin that inflationary pressure on fuel and power purchase costs did not directly impact the cost of service, as fluctuations in those costs are passed on to customers through the Energy Cost Adjustment. Rather, the study accounts for inflationary pressure on the costs of labor and materials for generation and distribution of power. Council Member Gartin added that the City's Climate Action Plan (CAP) goals would be important considerations for policy decisions.

Consultant Beauchamp illustrated how the utility's cash reserves will fall close to the recommended minimum cash balance in the next six years if no rate increases are implemented. City Manager Steve Schainker clarified that this state of affairs is expected, as the utility normally schedules rate increases every five years, raising cash reserves to be spent down over time. This practice spreads out rate increases so that customers are not faced with increases every year. Consultant Beauchamp then discussed the results of the cost of service by customer class, including residential, small commercial, commercial electric vehicle (EV) charging, industrial time-of-use (TOU), commercial, and industrial. Currently, the cost of providing service to many classes does not correspond to the projected revenues. For instance, the cost of providing service to residential customers makes up 33.6% of the total cost of providing service, while the revenue generated by residential customers makes up 35.1% of the total revenue generated by customers. This means that residential customers are paying more than their customer class's share. Adjustments to rate structures would close gaps between costs and revenues for each customer class.

One recommendation offered by Consultant Beauchamp was adjusting the fixed cost of service charge included for each billing period. This component of utility bills represents the fixed cost to provide service to customers. The suggestion was to increase the fixed charge and reduce the rate for utilization. In response to a question from Council Member Beatty-Hansen, Director Kom explained that the small commercial class includes commercial customers using less than 55 kilowatt volt amps, while those more than 55 kilowatt volt amps fall into the commercial class.

Consultant Beauchamp next presented the proposed Rate Adjustment Plan, explaining that the overall increase was 0%, with adjustments for each class of up to plus or minus 1%. These shifts would move customers charges closer to the cost of service. Council Member Beatty-Hansen inquired about the nature of the “Lighting” category, and Director Kom explained that some businesses rent security lighting for parking lots that has its own rate. Mayor Haila inquired about increasing costs in years beyond the scope of this study, and Consultant Beauchamp noted that it was recommended to conduct a cost of service study every three to five years.

Another recommendation resulting from the cost of service study was introducing new rate classes. A time-of-use (TOU) rate could be introduced for residential, small commercial, and commercial classes. Customers would have to opt in to participate. TOU rates set different prices for consumption during different periods of the day. On-peak usage between 2:00 p.m. and 6:00 p.m. would be more expensive than off-peak periods of 7:00 a.m. to 2:00 p.m. and 6:00 p.m. to 8:00 p.m. All other times, federal holidays, and weekends would be subject to a super off-peak rate, the cheapest of the three. This structure incentivizes shifting usage away from peak periods. Council Member Junck inquired whether the on- and off-peak periods were set based on Ames data, and Consultant Beauchamp replied in the affirmative. City Manager Schainker noted that it will take several years for the advanced metering infrastructure (AMI) that will make TOU rates possible to be installed across the City, but customers would be able to opt in to the program as soon as the AMI is installed at their residence. Director Kom added that AMI installation will occur upon customer request and whenever staff goes out to interact with a meter. Council Member Junck inquired whether the availability upon request applied to renters, and Director Kom clarified that it would be available upon request to whoever is paying the bill at the related address.

Consultant Beauchamp noted the shift in the incentive structure for the interruptible rate before addressing the proposed changes to the solar rates. The utility handles customer solar production through net billing, where the customer is charged for their usage through the utility and credited back for the energy they produce. This credit is based on an avoided cost calculation, which is intended to reflect the costs that the utility avoids by not having to provide that energy. Consultant Beauchamp explained that the current avoided cost credit pays customers more than the actual avoided costs, essentially providing a subsidy for solar built into the rate. The study proposed recalculating the avoided cost credit to better match the actual avoided costs for the utility. Consultant Beauchamp emphasized that a methodology of better matching costs to rates is important for the stability and financial health of the utility. At the same time, it is important not to change the rules on customers who have already invested in solar based on the existing rate structure. One way to accomplish both goals would be to grandfather in current customers with

solar at the existing rate until their investment pays off while establishing a revised rate with a new avoided cost calculation for customers adding solar moving forward. Consultant Beauchamp also explained that the proposed avoided cost calculation could be based on three or five year averages for avoided costs to increase the stability of the pricing so that proposed changes are less dramatic for customers. He also noted that the proposal suggested using the same solar rate across customer classes instead of the current system of separate solar rates for residential, small commercial, commercial, and industrial.

Council Member Gartin noted that offering subsidies or incentives for solar energy is an important policy question for the City Council, expressing interest in creating space for public input on the topic. Council Member Beatty-Hansen emphasized the importance of incentives in making solar energy accessible to residents. Council Member Gartin asked Consultant Beauchamp about how other communities were handling similar situations. Consultant Beauchamp stated that he worked with a number of municipalities who had implemented the proposed change in avoided cost calculations and found other ways to incentivize solar energy. In his experience, the best practice was to separate incentives from the rate itself. Director Kom clarified for Council Member Betcher that the solar rates in question did not apply to the community solar farm. Mayor Haila pointed out that overpaying for avoided costs amounts to a loss for the utility and inquired as to who is currently covering that cost. Director Kom explained that those costs are factoring into the energy cost adjustment, which is applied equally to each customer's bill. He acknowledged that it was an issue of fairness that all customers, including those who may not be able to afford solar energy, were paying for the subsidy in its current form. City Manager Steve Schainker pointed out that the suggestions in the study could be voted on individually if the City Council was ready to move forward on some but not all of the proposed changes.

Next, Consultant Beauchamp presented the overall rate track recommended by the study. A placeholder for a large investment in generation in 2029 was included given the age of current generation infrastructure. To avoid large rate increases, the study recommended a 1.5% rate increase each year from 2026 to 2030. Council Member Gartin asked how the proposed increases compared to peer communities and other providers in the area. Director Kom noted that Alliant Energy's rate increases are considerably higher than the proposal in the study. He also stated that staff could research comparisons to other municipal providers. Mayor Haila inquired whether the City's waste-to-energy system was included in the cost of service analysis, and Director Kom noted that any changes to that system were intentionally left out of the study.

Sample rates for different classes under the proposed changes were reviewed by Consultant Beauchamp. Overall, the residential class would see a 1% rate reduction. Council Member Beatty-Hansen noted that costs would increase for the lightest users, and Finance Director Corey Goodenow explained that the lightest users were typically residents who did not stay in Ames during the winter months. The overall change for the commercial class would be an increase of 0.9%, and the industrial class would see a 0.5% increase. Mayor Haila asked if sample calculations on the proposed changes for solar customers were available. Director Kom explained that staff did not have that information at the moment but could compile that information in the future.

Council Member Beatty-Hansen returned to the topic of solar rates and incentives, suggesting that the difference between the current avoided cost credit and the actual avoided cost could be listed on bills as a separate line item incentive. This would allow the rate to be restructured to match actual avoided costs while still providing incentives for solar energy to customers. EUORAB Member Fleming noted that there were several ways to adjust incentives without disrupting customer expectations regarding the buyback period. Council Member Beatty-Hansen added that her suggestion was designed to make solar billing more transparent and accurately reflect the actual avoided costs and incentives involved. Mayor Haila asked if offering up-front rebates for solar, similar to existing heat pump rebates, would be a simpler solution for offering incentives. Consultant Beauchamp cautioned against this approach, as private investments in energy efficiency versus generation have significant differences in how they affect the utility. Director Kom noted that the current policy for customer solar is authorized for up to 2 megawatts in total, and the program is currently at 1.5 megawatts. Once the program reached the current 2 megawatt cap, approval from the City Council would be required to increase that limit or make other changes to the program. Council Member Gartin repeated his desire for public input on the topic of solar rates and incentives, and Mayor Haila suggested that EUORAB could investigate the topic further and report back.

Mayor Haila inquired about the implications of the possibility of widespread electric vehicle usage in the future for the utility. Consultant Beauchamp noted that increased usage may require resizing some transformers to handle the distribution. Increased usage drives increased revenue, so the funding would be available to resize transformers. Director Kom added that implementing time-of-use rates would be critical for a future with significant numbers of electric cars, as the utility would need charging to shift to off-peak hours.

City Manager Schainker stated that a related topic for future consideration is a green rate. While the contract for the cost-of-service study did not include this topic, it is something that large customers are requesting. Director Kom explained that the existing rates have a blend of generation types included, but some businesses would like the ability to purchase energy from renewable sources exclusively. Staff is beginning to explore the possibilities for developing a green rate.

DISPOSITION OF COMMUNICATIONS TO COUNCIL: Mayor Haila noted one disposition to the City Council from Planning and Housing Director Kelly Diekmann about the request to rezone property at 113 North Dakota Avenue. City Manager Schainker noted that staff is supportive of the request.

Moved by Corrieri, seconded by Beatty-Hansen, to place the item on a future agenda for discussion.

Vote on Motion: 6-0. Motion declared carried unanimously.

COUNCIL COMMENTS: Council Member Betcher reminded the other Council Members to submit their input on the annual reviews of the City Manager and City Attorney. She shared that the Juneteenth Celebration was a big success and thanked the volunteers that made it possible.

Council Member Gartin highlighted that Council Night at the Bandshell was coming up on Thursday, June 20. Ice cream would be distributed starting at 7:00 p.m. and the concert would begin at 8:00 p.m. He also offered his condolences to the Story County Sheriff's Office, which lost one of its own recently.

Council Member Rollins echoed Council Member Betcher's comments on the Juneteenth Celebration.

ADJOURNMENT: Moved by Beatty-Hansen, seconded by Junck, to adjourn the meeting at 7:54 p.m.

Vote on Motion: 6-0. Motion declared carried unanimously.

Jeremy Neefus, Principal Clerk

John A. Haila, Mayor

Renee Hall, City Clerk