

**CITY OF MASCOUTAH
CITY COUNCIL MINUTES
#3 WEST MAIN STREET
MASCOUTAH, IL 62258-2030**

SEPTEMBER 22, 2020

The minutes of a virtual workshop of the City Council of the City of Mascoutah.

CALL TO ORDER

Mayor Gerald Daugherty called the meeting to order at 6:00 p.m.

Present: Mayor Gerald Daugherty and Council members John Weyant, Pat McMahan, Michael Baker, and Walter Battas.

Absent: None.

Other Staff Present: City Manager Brad Myers, Assistant City Manager Kari Speir, City Clerk Melissa Schanz, Utility Billing Supervisor Kim Stambaugh, Electric Department Supervisor Larry Linck, Public Works Director Jesse Carlton, City Engineer Tom Quirk, Finance Coordinator Lynn Weidenbenner.

Others present: Kevin Gaden, Mike Genin, and Sean McCarthy of Illinois Municipal Electric Agency.

DISCUSSION (ELECTRIC RATES AND PHASE II ELECTRIC)

Mayor Daugherty opened the meeting by providing background information regarding the history of rate comparisons that he has done over the last years. Mascoutah's rates have historically been one cent higher than Ameren. This year, after taking a sampling of seven surrounding municipalities, which receives electric service from Ameren, it had been discovered that Mascoutah is approximately three cents higher than surrounding municipalities. Mascoutah's rates are lower than Clinton County Co-op, yet slightly higher than Monroe County Co-op.

Kevin Gaden with IMEA introduced himself and gave some background of his experience. He introduced Mike Genin and Sean McCarthy. Gaden presented a slide presentation about IMEA and reviewed their operations. Gaden introduced the IMUA, which is more of the lobbying side of their program. Mayor Daugherty asked for clarification on one of the slides that they had presented.

The first question that was presented was "what's the outlook on fossil fuels as they relate to power plants and the push to lower carbon?" In the long term, there has been a push to get carbon out of the system, while much of the focus has been on coal-fired power plants, other industries and sources of emissions will become a factor. In addition, Gaden stated that the reality of the situation is renewable resources do not have the technology to produce the reliability required for the power grid system.

The next question is “how will renewable energy affect IMEA rates in the future?” As IMEA introduces more renewables into their portfolio, it should help them become more stable and help them come off a little bit. IMEA’s rate projections for the next five years are expected to remain flat or go down slightly, not including transmission rate variables, which may increase. He also stated that Illinois capacity markets, the MISO region, and the historically higher costs of natural gas, which is now lower due to fracking technologies, also play a factor in the cost of production. Gaden stated if fracking were to be banned or more strictly regulated, it would have a negative impact on our economy.

Another question provided was “do other IMEA members have similar problems with rate disparities”. Gaden did an analysis on Freeburg, Carlyle, Chatham, Waterloo, and Naperville. Gaden stated for the last audited fiscal year, Mascoutah paid IMEA 4.534 million dollars for power. Mascoutah’s total electric revenue was 8.25 million dollars. To break these numbers down, this means that 55% of the cost is to generate the power and deliver it to the substation. The other 45% are costs associated with operating the distribution system. Mascoutah’s electric revenue divided by the amount of kilowatts sold to the City by IMEA results in a net rate of 13.2 cents per kilowatt-hour. Distribution system losses were not factored into this equation. Compared to Waterloo, Freeburg, and Carlyle, Mascoutah’s net rate per kilowatt-hour was approximately between 0.2 to 2 cents higher. Mascoutah is similar in rates to Highland. Gaden also stated, based on his professional history, normal percentage breakdowns of generation costs to costs to operating the distribution system should be closer to 70% and 30% respectively. Mayor Daugherty stated, looking at the percentages, it appears that the discrepancy between Mascoutah and some of the other member municipalities is something internal cost-wise, not the power purchase cost from IMEA. Gaden stated that was not necessarily it, as Mascoutah’s electric department may be providing services above and beyond, which other member municipalities may not be providing, and those costs would be reflective in a higher percentage and a higher cost of operating the distribution system. City Manager Brad Myers stated that Mascoutah’s rate structure is reflective of capital projects and building the reserve to fund infrastructure enhancements such as the Phase II Electric Project and feels that rate deductions could be achieved after Phase II is completed.

Councilman McMahan asked if the municipalities listed on the chart have their own electric departments similar to Mascoutah, to which Gaden stated yes. Councilman Weyant inquired if generating municipalities received a cost deduction on power purchases. Gaden stated that the net per kilowatt-hour cost provided to Council did not include any power purchase cost deductions or credits for generating members.

Gaden stated IMEA reviewed the last five years of power costs to the City of Mascoutah and compounded costs have gone up 6.58% in total. On average, it has gone up 1.3% per year. To the ratepayer, this would not be entirely noticeable.

Councilman Baker stated Altamont installed a solar field and asked if that would count as being a generating city, which Gaden stated Altamont’s solar project is “a member behind the meter” which means IMEA has the contract for that and Altamont is merely the host of the project, but Altamont does not own that generation. In summary, Altamont does not own or receive credit for the generation as IMEA has the contract for this and it is part of their generation portfolio. Baker asked if it would make sense for Mascoutah to do something similar. Gaden said that

Mascoutah could apply to be a behind the meter site host and could examine this more with City Staff. Myers asked how many acres would be needed, which Gaden stated approximately 5 acres would be sufficient.

Gaden readdressed the 6.5% IMEA cost increase over the last 5 years. These rates include the transmission charges that are paid to Ameren on the member's behalf. Ameren's rate has increased almost 200% for service costs in that time. These costs are passed through IMEA from Ameren to IMEA's members. IMEA does not inflate these costs since they are a not for profit, tax-exempt agency. If not for the substantial transmission cost increases from Ameren over the last five years, IMEA's rate would actually be lower. Gaden stated IMEA received notice that Ameren is proposing a 23.6% increase in their high voltage transmission rates, effective January 2021. IMEA is looking to challenge this through the MISO or the FERC, however if this challenge is unsuccessful, the costs will have to be passed on to member communities.

The next question Gaden is addressing is how much it would cost Mascoutah to buy out of their contract with IMEA and is there a definitive cost. There are five tests that Mascoutah would have to uphold to be able to have the opportunity to exit the contract, along with a deposit Mascoutah would be required to pay to ensure the bondholders will be held whole. Mascoutah is approximately 1.5% of IMEA's load, meaning Mascoutah pays approximately 1.5% of the cost of IMEA. Since IMEA uses tax exempt financing, Mascoutah could not sell its share of the responsibility to an agency that is not tax exempt because that would violate the covenants of the bonds and is not allowed by the IRS. In addition, a deposit would be due back to IMEA for the duration of the contract to ensure Mascoutah upholds their share of the bills (debt service obligation). The current contract ends September 30, 2035. Once the current contract is completed and all debt service obligations are met, IMEA anticipates their rates would decrease approximately 25%. To date, the combined equity of the IMEA is approximately \$300 million dollars, which Mascoutah, as a founding member has an interest. In 2035, the equity is estimated to have grown to be well over \$400 million dollars, of which Mascoutah, being an equity participant, may want to keep in mind of the investments made over time. The deposit would be approximately \$4.6 million dollars times 15 years, meaning Mascoutah would be looking at approximately \$70 million dollars plus inflation, which could push that number closer to \$80 million dollars.

Mike Genin from IMEA noted that the Council would be better served by not examining individual snapshots of bills from Ameren, because due to different rate structures such as residential, commercial, electric heat, etc., the Council may not be receiving an accurate comparison of Mascoutah's rates versus a competitor energy provider's rates. Genin recommended meeting with City staff and IMEA to obtain accurate comparisons. Baker stated based on his research, the main difference is not in the energy costs of the energy suppliers, it is what Mascoutah is charging for internal costs (lines, trucks, lineman, etc.).

Mayor Daugherty explained that the City is not displeased with IMEA, however these questions are being raised due to the fact that residents ask the Council questions about the power rates, and the Council can only answer with the fact that Mascoutah is in a contract and cannot afford to get out of the contract, to which the residents ask how much would it cost to get out of the contract.

Gaden also noted that an additional value of having your own electric department is that most outages you may experience are relatively short since the local crews are able to respond and get you up and running rather quickly, and any substantial outages are due to Ameren transmission issues in getting the power to Mascoutah. It is an added value and Mayor Daugherty added he is very proud of Mascoutah's electric department.

Gaden stated that currently IMEA has approximately 11% of its energy coming from renewables and that will significantly increase with upcoming projects. Gaden compared that to the State's operations, which is currently only 8%, so IMEA is ahead of other energy providers with regards to the state mandate of 25%. The 25% mandate is for investor owned utilities; IMEA is not an investor owned utility and is not subject to this mandate, however exceeds what mandated utilities in Illinois are accomplishing.

Gaden stated another question is customers wanting to do solar purchase power agreements. Gaden stated, in short, that IMEA cannot allow this due to the terms of the bondholder agreements. The bonds require power to be purchased through IMEA. In addition, he stated that you cannot prevent a customer from installing solar to serve their own property and use it on their own property. However, IMEA and its member municipalities cannot allow customers to sign up for Power Purchase Agreements with outside or other solar energy providers to sell that power back on the grid. Again, this is due to the bond terms that state power has to be purchased through IMEA. Due to the want for renewable energy resources, that is why IMEA has invested in its own renewable energy resources for its members. Gaden said the other part of this issue, which is more technical, is the 1997 Deregulation Act, which, in simple terms, states that if the City were to allow any amount of customers to put solar panels on their home and to sign Power Purchase Agreements with outside companies, the Act is reciprocal and therefore, you have opened these type of PPAs with any other energy provider and violated the terms of the bond agreement. Not to mention, customers need be informed that when signing these PPAs, the solar company would have the right to the power generated on the property; therefore, transferring ownership of their property could have potential consequences. Baker reiterated that, to be clear, customers can put solar on their homes, but cannot sell it back to the system. Gaden stated this is correct. Gaden said that the customer must own the solar equipment on their property, not another entity, in order to install solar on their property.

Councilman Baker stated that IMEA and the City currently does not have a program to allow buying back a set percentage of renewable energy. Baker's question is in the future, or going forward, is there a possibility of increasing the amount that is allowed for more solar in the town. Gaden said that is a discussion that the IMEA Board is having, but it is in the very early stages due to potential power purchase costs/rates which could be effected and those increase costs would have to be associated amongst IMEA's members i.e. "whether you use the increased percentage of renewable energy buy back or not, and its effects on power purchase rates." Gaden stated one of the ways the Board is talking about this possibility is by signing extending power purchase contracts with IMEA beyond 2035 and writing a clause into the contract to allow up to a certain increased percentage of members to self-procured energy with IMEA being the supplemental provider of the remaining energy requirements.

Baker asked about energy savings and if customers did such improvements as LED lightbulbs to reduce the amount of power they use, therefore the City purchasing less power from IMEA, do the bonds or contract require a certain amount of power to be purchased from IMEA. Gaden

answered no. A municipality is only obligated to purchase enough power to serve its demand. That demand can go up or down, and that is all the municipality is required to purchase at the already set rate. IMEA is required to meet the demand of the municipality, whether it goes up or down, at the already predetermined rate. Rates are forecasted to be stable, due to IMEA not having any variable debt.

Gaden also received a question if IMEA has any friends at the Commerce Commission. He stated he understands the reasoning for the question due to what Mascoutah is trying to do with their new transmission line, however, no; IMEA has no influence at the Commerce Commission.

Councilman Weyant asked if there is any way to have Ameren provide a higher kilowatt line to Mascoutah. He stated Mascoutah has one line servicing from the South and one line from the North. Weyant said if the line to the North could be utilized to serve our load that would change the need for the Phase II Project for reliability. In the past, the City has been told Ameren will not serve our load from that North line anymore. Gaden said Ameren's issue is they do not have the interconnect capability from their high voltage system to Mascoutah's substation to serve the energy demand.

Mayor Daugherty asked if the ICC denies the request, is there any assistance or suggestions the IMEA can provide? Gaden stated that essentially, what the Commerce Commission is saying is that the City should pay the extra cost to Ameren to reconfigure and relocate on their existing line. Gaden said, in his professional opinion, he does not understand how this makes any logical sense. Gaden also stated there are other legal means outside of the Commerce Commission to appeal this decision. Mayor Daugherty said he was under the understanding that if Mascoutah paid the exorbitant amount of money to collocate on Ameren's existing line, that Ameren would have the right to tell the City to remove themselves from their line in the future if Ameren needed the capacity. Gaden said that was his understanding as well, but IMEA and the City would certainly have to negotiate terms to prevent the City from being left out. Moreover, possibly reapproaching Ameren for an alternative solution to this issue could be discussed. Daugherty and Gaden discussed meeting with Ameren to discuss this issue.

Gaden reiterated if Mascoutah could provide the information from its research, he would be happy to provide load specific information on rate comparisons between Mascoutah and other IMEA members and investor owned utilities.

Baker asked if in Gaden's experience, is it typical for businesses to pay a higher rate to other user categories. Gaden said typically yes, and this is due to their load factors and consistent usage on the distribution system.

In conclusion, Mayor Daugherty stated the City would need to analyze the internal costs of operating the electric department. This will need to be done to determine what is being charged for services to the electric fund versus what should or could be charged to the general fund. Gaden conferred and added while those charges for "above and beyond services" charged to the electric fund are very legitimate, if moved to other funds such as the general fund, decisions will have to be made to fund those services or eliminate those additional services provided.

Councilman Baker added in regards to the co-location on Ameren's poles, in the past statements had been made that it could not be done and then Ameren agreed to let it happen (at a high cost

to the City). Baker stated the City should try to approach Ameren to renegotiate these terms of co-location.

The Mayor and the Council discussed having meetings with Ameren to discuss these issues. Weyant asked if the City were to co-locate on Ameren's poles would we still need easements and wanted to know who stated that. Assistant City Manager Speir stated that Ameren had always denied the City's request to co-locate until the City filed with the ICC and once some of that information being disbursed, Ameren changed their decision regarding collocating with the exorbitant terms and costs. Ameren was the one who said the City should still obtain the easements now in case in the future Ameren would have to ask the City to remove themselves from their pole line and the City construct their own.

Councilman McMahan confirmed that, in the beginning, the City tried to negotiate an alternative with Ameren and was told no, but once the City filed with the ICC, they changed their mind, which caused the cost of the project to increase an extreme amount as their terms were for the City to reconstruct their existing line in order to co-locate. Assistant City Manager Speir confirmed that yes that is correct.

City Manager Myers confirmed that additional meetings would be necessary in regards to this issue among the City, Ameren, and legal counsel.

COUNCIL MISCELLANEOUS

PUBLIC COMMENTS

None

ADJOURNMENT

Mayor Daugherty adjourned the meeting at 8:00 p.m.

Julia Biggs, Executive Assistant