

City of Henderson, Kentucky

NOTICE OF WORK SESSION

Tuesday, April 19, 2022

April 14, 2022

Commissioner Robert N. Pruitt, Sr.
Commissioner Bradley S. Staton
Commissioner Rodney Thomas
Commissioner Austin P. Vowels

Dear Board Members:

The regular work session is scheduled for 3:00 p.m. on Tuesday, April 19, 2022, in the 3rd Floor Assembly Room of the Municipal Center. The lone item on the agenda for review is as follows:

A G E N D A

1. Roll Call
2. HLI to Discuss Juneteenth Celebration
3. Discussion of PILOT Payments with Henderson Municipal Gas (HMG)
4. Adjournment

Respectfully,

Steve Austin, Mayor

A copy of the foregoing notice received and service thereof waived this 19th day of April, 2022.

Commissioner Robert N. Pruitt, Sr.

Commissioner Bradley S. Staton

Commissioner Rodney Thomas

Commissioner Austin P. Vowels

**City Commission Memorandum
22-82**

April 12, 2022

TO: Mayor Steve Austin and the Board of Commissioners
FROM: William L. “Buzzy” Newman, Jr., City Manager
SUBJECT: Work Session Agenda

The regular April work session is scheduled to begin at 3:00 p.m. on Tuesday, April 19, 2022, in the 3rd Floor Assembly Room of the Municipal Center. The items on the agenda for review will be:

Juneteenth Celebration

HLI will discuss plans for a Juneteenth Celebration.

PILOT Payments with Henderson Municipal Gas

Tim Clayton, Gas System Director, will be in attendance for discussion.

c: Tim Clayton

HMG PILOT

Presentation 4-19-22

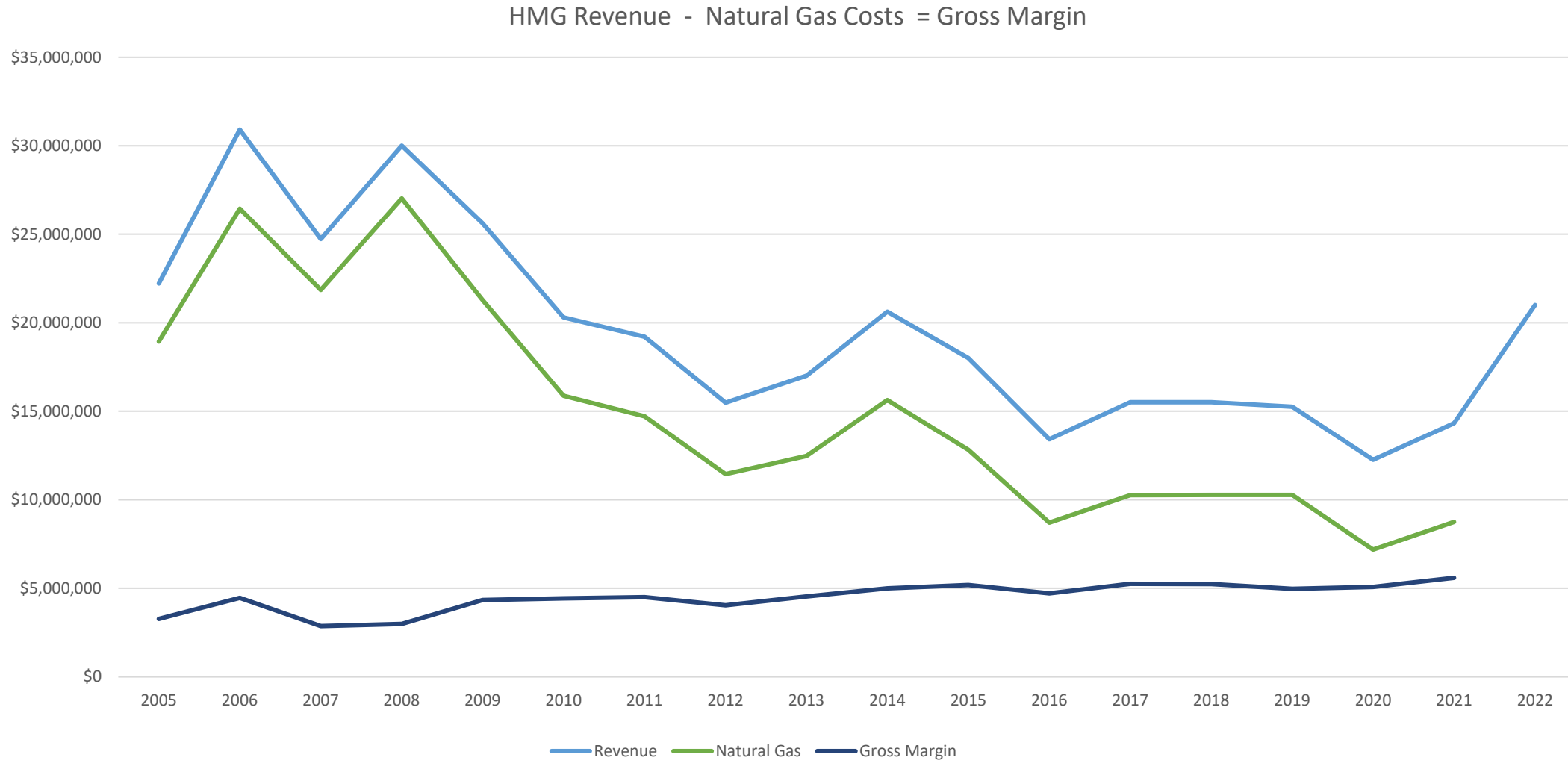
Tim Clayton
Gas System Director

Revenue based PILOT

- A pilot payment based on overall operating revenue is not a good solution for HMG.

- 1) HMG revenue is dependent on first of the month index pricing for natural gas.
 - a. Natural gas costs are passed through to the customer with no mark-up.
 - b. Pricing has ranged from \$1.37 to \$6.17 in the last 5 years.
 - c. Pricing has been as high as \$13+ in 2005 and \$12+ in 2008.
 - d. HMG total revenue is not a function of the performance of the utility.
 - e. Higher revenue is typically driven by higher gas prices.
 - f. Large Industrial sales customers have a significant effect on total revenue mostly due to the pass-through cost of natural gas.
 - a. International Paper is \$3.5M of our total revenue.
 - b. Pratt Industries would add \$10M to our revenue.

- Gross Margin is a function of sales volumes, number of customers, and payments from PEAK.
- This chart shows that gross margin has been steadily increasing and is not related to total revenue.
- Total revenue is mostly a function of how high or low gas prices are at a given time.



Gross Margin PILOT Proposal

Total Gas Revenue (minus) Pass Through Gas Costs = Gross Margin

Examples of how the PILOT would be calculated under this Gross Margin PILOT proposal.

	2019	2020	2021
Gas Sales	\$14,815,764	\$11,619,202	\$13,422,335
PEAK Return	\$321,496	\$570,831	\$828,416
Natural Gas	\$10,280,365	\$7,178,038	\$8,742,656
Gross Margin	\$4,967,960	\$5,073,772	\$5,585,506
HMG PILOT	\$794,873.60	\$811,803.52	\$893,680.96

Gross Margin PILOT

- There are many advantages to the proposal.
 - 1) First of month index price has no bearing at all on the PILOT payment.
 - 2) If HMG adds customers or volumes, the City will always benefit in increased PILOT payment.
 - 3) The PILOT payment would increase approximately \$100,000 with the addition of Pratt Paper as a sales customer from HMG margin and PEAK pre-paid revenue.
 - 4) Any additional customer PEAK takes on, such as Memphis Light, Gas, & Water, will result in increased payments to HMG, and subsequent increase in PILOT payments to the city.
 - 5) Taking on HMPL peaking units would result in an increased PILOT payment.
 - 6) Any rate structure change or increase in industrial rates would result in increased sales margins and increased PILOT payments.
- Negatives for city.
 - 1) A bad sales year (mild winter) for HMG would result in lower PILOT payment.

Residential Rate Changes

- Reduction of the Monthly Customer Charge from \$12.50 to \$11.50.
- Reduction of the residential margin rate from \$2.60 to \$2.40.
- These changes will save HMG's residential customers \$200,000 per year.
- Saves the average residential customer \$3-4 per month during the 5 heating months (November – March) and \$1-2 during the other months.

CITY OF HENDERSON, KENTUCKY NATURAL GAS RATES AND CHARGES

Section I. Residential Sales Service

Applicable for service to any Residential customer located within the city limits of or adjacent to certain areas directly served by the City of Henderson:

1. Monthly Customer Charge: A Monthly Customer Charge of ~~\$12.50~~ **\$11.50** shall be assessed each month.
2. Rate: per 1,000 cubic feet, plus the delivered cost of gas: ~~\$2.60~~ **\$2.40** Beginning On: 2022

The Rate shall be based on a heat content of 1,067 Btu's per cubic feet and adjusted monthly as established by Texas Gas Transmission (Boardwalk Pipeline Partners, LP) for the consumption month at the city delivery points.

Commercial Rate Changes

- No commercial rate changes proposed.

Section II. Commercial Sales Service

Applicable for service to any Commercial customer located within the city limits of or adjacent to areas served directly by the City of Henderson:

1. Monthly Customer Charge: A Monthly Customer Charge shall be assessed each month as follows:
 - A. Up to 500,000 cubic feet per year and a connected load less than 500,000 Btu per hour: \$16.00 per month
 - B. Above 500,000 cubic feet per year or a connected load greater than 500,000 Btu per hour: \$36.75 per month.
2. Rate: per 1,000 cubic feet, plus the delivered cost of gas:

	<u>Effective Date:</u>	1/1/2018
Up to 500,000 cubic feet per month:		\$2.60
Next 4,500,000 cubic feet per month:		\$0.955
Above 5,000,000 cubic feet per month:		\$0.30

The Rate shall be based on a heat content of 1,067 Btu's per cubic feet and adjusted monthly as established by Texas Gas Transmission (Boardwalk Pipeline Partners, LP) for the consumption month at the city delivery points.

Industrial Rate Changes

- HMG rate structure is too low for large and mega gas users.
- The current rate structure was designed for small/medium users.
- Remove the 5th tier of the rate structure.
- Adjust the remaining 4 tiers accordingly.
- Increase small customer monthly charge from \$80 to \$100.
- Increase large customer monthly charge from \$210 to \$250.
- These changes have minimal effect on Industrial Customers.

Industrial Rate Changes

Current Ordinance

1. Monthly Customer Charge: A Monthly Customer Charge shall be assessed each month as follows:

A. Up to 50,000,000 cubic feet per year: —\$80.00 per month

B. Above 50,000,000 cubic feet per year: —\$210.00 per month

2. Rate: per 1,000 cubic feet, plus the delivered cost of gas:

A. Service for Customer with executed Service Agreement

Effective Date: 1/1/2018

~~Up to 500,000 cubic feet per month: \$2.60~~

~~Next 4,500,000 cubic feet per month: \$0.955~~

~~Next 10,000,000 cubic feet per month: \$0.30~~

~~Next 20,000,000 cubic feet per month: \$0.14~~

~~Above 35,000,000 cubic feet per month: \$0.085~~

Proposed Ordinance

1. Monthly Customer Charge: A Monthly Customer Charge shall be assessed each month as follows:

A. Up to 50,000,000 cubic feet per year: **\$100.00** per month

B. Above 50,000,000 cubic feet per year: **\$250.00** per month

2. Rate: per 1,000 cubic feet, plus the delivered cost of gas:

A. Service for Customer with executed Service Agreement

Effective Date: 2022

Up to 500,000 cubic feet per month: \$2.60

Next **5,500,000** cubic feet per month: \$0.955

Next **20,000,000** cubic feet per month: \$0.30

Above **26,000,000** cubic feet per month: \$0.14

Industrial Rate Changes

Proposed Ordinance's affect on HMG's big 8 Industrial Customers.					
Existing HMG Big 8 Industrial Customers	Approx. Yearly Usage (MCF)	Total Yearly Margin	Additional Yearly Margin	Total of Natural Gas Bill 2021	% Increase of Yearly Gas Bills
Customer #1	900,000	\$177,570	\$55,380	\$3,570,981	1.55%
Customer #2	420,000	\$136,770	\$28,980	\$1,398,446	2.07%
Customer #3	264,000	\$114,930	\$21,300	\$1,128,146	1.89%
Customer #4	180,000	\$103,170	\$7,860	\$802,327	0.98%
Customer #5	120,000	\$85,170	\$7,860	\$532,147	1.48%
Customer #6	90,000	\$76,170	\$7,860	\$467,785	1.68%
Customer #7	78,000	\$72,570	\$7,860	\$340,579	2.31%
Customer #8	60,000	\$67,170	\$0	\$283,263	0.00%
Total	2,112,000	\$833,520	\$137,100	\$8,523,674	1.49%
Proposed Ordinance's affect on HMG's new Industrial Customer					
Future (2024) Industrial Customer	Approx. Yearly Usage (MCF)	Total Yearly Margin	Additional Yearly Margin	Total of Natural Gas Yearly Bill	% Increase of Yearly Gas Bills
Customer #1	2,400,000	\$305,070	\$137,880	\$10,000,000	1.38%

Local Transportation Service Change

- Transportation service should only be available for large and mega gas users.

Section V. Local Transportation Service

Applicable for service to any customer with yearly gas usage meeting or exceeding 500,000 MCF and owning its own natural gas supplies. For a minimum period of twelve (12) months commencing each November 1st, the customer may have the City provide local transportation service across the City's gas distribution system provided a Natural Gas Transportation Agreement acceptable to the City Manager is executed by the customer. The local transportation rates shall be the same rates as contained in Section III, Subsections 1 and 2A of this ordinance, less the delivered cost of gas component, plus being subject to a balancing policy, shrinkage adjustment, and the general terms and conditions as may be contained in the Natural Gas Transportation Agreement. In addition, the City will require the customer to reimburse the City for the actual cost of telemetering equipment that will allow the City to monitor the customer's gas usage on a real-time basis. The City will assess an additional monthly fee of \$600 for administering this service.