



Minutes for January 20, 2022

Members attending the meeting:

Mark Campen, Tiki Dixon, Tim Hill, Haseeb Qureshi, Amy Midis, Kent Minault, David Myers, Mike Odom, Stephen Smith

Others in attendance:

Facilitator: Dr. Bill Lyons

KUB Staff: Gabriel Bolas, Mike Bolin, Susan Edwards, Derwin Hagood, Elba Marshall, Tiffany Martin, Mark Walker

KUB Board members: Jerry Askew, Claudia Caballero, Kathy Hamilton

Old Business

None

New Business

The Community Advisory Panel met at 3:00 p.m. on January 20, 2022 at KUB's Mintha Roach Corporate Services and Training Center.

Dr. Lyons welcomed the panel members and KUB Board members in attendance. He asked for feedback on setting the next meeting. It was decided the first Thursday of March at 3:00 p.m. seems to work for those present. KUB staff will follow up with the other panel members as well.

Dr. Lyons asked if anyone had corrections to the meeting minutes from last month's meeting. There were no corrections.

Dr. Lyons explained the agenda for this meeting was to continue discussion about KUB rates.

Dr. Lyons recognized Mike Bolin, KUB Vice President of Utility Advancement. Mike presented information about the capital investments for each of the four utility systems over many years, and talked about KUB's Century II program to replace infrastructure on sustainable cycles and ensure service reliability. He talked about history related to the wastewater system investments under the EPA Consent Decree, which required increased capital spending. Dr. Smith asked about electric system investments and how KUB makes decisions for how much is necessary to invest versus "gold-plating the system." Mike and Gabe Bolas, KUB President and CEO, talked about the data KUB uses to determine when

the utility assets need replacement to avoid failures and outages. Gabe explained that before KUB increased investments, KUB was experiencing equipment failures that indicated more investment was needed to avoid service disruptions, and it has taken a while to get caught up in replacing old assets and have better systems today to be more proactive. He explained KUB looks closely at various data to determine the right balance for investments.

Mark Campen asked if KUB expects future investments to level off. Mark Walker, Senior Vice President and KUB Chief Financial Officer, explained the reduction shown for 2021 was due to project deferrals to manage resources through the pandemic. He expects wastewater system investments to level off or even drop now that requirements of the Consent Decree are being fulfilled. He expects gas system investments to remain steady, and he noted more investment is needed for the water system. Mark explained investment in the electric system will increase due to KUB's commitment to provide broadband service.

Mike shared information about KUB's history of debt and how debt has increased to support the infrastructure investments. He reminded the panel KUB has two main sources through which to fund the capital investments: debt and rates. He explained KUB's Board decided to fund investments to improve the systems with a mix of debt and rate increases, and as a result, KUB increased its debt level fairly significantly.

Haseeb Qureshi asked what type of debt KUB uses. Mark Walker explained it is typically with a fixed rate and 30-year maturity.

Mike shared the history of rate increases, using the electric system as an example. He noted earlier in his career at KUB, there were very few rate increases. He explained when the Century II program started, KUB implemented small, regular rate increases to help fund the investments to replace aging infrastructure.

Dr. Smith interjected to clarify the terminology, and said he believes he is correct in that it was fixed fee increases rather than rate increases. Mike explained that yes, for the most part, the increases were applied to the basic service charge or "fixed fee." He explained that the decision of the KUB Board at that time was that it was a way to apply the increases evenly to all customers. Mark Walker, Senior Vice President and KUB Chief Financial Officer, also explained that KUB compared itself to other utilities at the time and KUB's fixed fees were very low compared to others and part of the rationale for the decision was based on this comparison.

Dr. Smith stated he feels the higher fixed fee is disadvantageous for lower income customers who live in smaller homes and use less energy.

Mr. Odom asked to clarify the data on the slide and that the total impact was basically a 1% increase on the total bill paid by customers, regardless of what part of the bill the increase was applied to. Mike confirmed this is accurate.

Mike shared information to show how KUB's rates currently compare to other utilities, even with the increased capital investment and debt levels. Mike also illustrated how KUB's fixed fee and total bill compares to other TVA distributors. KUB's fixed fee is about average when compared to the other electric distributors.

Mike then shared information to illustrate how the customer's total bill is impacted by a higher or lower fixed fee. With higher consumption, the total bill is lower with a higher fixed fee and lower commodity rate. With lower consumption, the total bill is lower with a lower fixed fee and lower commodity rate.

Mike explained one of KUB's considerations in rate decisions is how various groups of customers will be impacted, including lower income customers. Mike shared data to show the average consumption for KUB's customers who have received LIHEAP bill payment assistance, since these customers are known to be lower income. The majority of these customers had higher than average consumption and would have had higher bills if KUB had a lower fixed fee and higher commodity rate.

Dr. Smith stated KUB has been a leader in helping lower income homes be more efficient, and in many cases, lower income customers have high electric consumption due to living in substandard housing. He stated while KUB having the current rate structure may provide these customers temporary relief on their bills, it does not address the source of the problem. He stated he believes it would be better to encourage energy efficiency and "try to drive them" to have lower consumption.

Mike agreed the cause of lower income customers having high consumption is often due to those customers living in inefficient homes. He explained what he is trying to illustrate is how KUB's current rate structure impacts their total bills, and the data shows if KUB had a lower fixed fee and higher commodity rate, many of these customers would have higher bills.

Dr. Smith expressed he feels it is important to send market signals to encourage energy efficiency.

Haseeb Qureshi asked if the fixed fee is used to pay KUB's debt, and he mentioned being able to communicate to the end user what is the value of the fixed fee. Mark Walker explained the fixed fee alone is not used only to pay for debt, and Mike reminded the panel of earlier discussion of KUB's cost of service studies and the role of the fixed fee in cost recovery.

Stephen Smith shared his thoughts about the cost of service studies, as discussed in a prior meeting. He expressed he does not agree with KUB's cost of service methodology and noted he is not sure KUB's Board was provided enough information. Kathy Hamilton, KUB Commissioner, stated KUB's Board was provided a lot of information to consider in making decisions.

Mike Odom asked what factors KUB's bond holders are looking at when they issue bonds. Mark Walker explained they are looking at several factors, such as the willingness to raise rates to pay for the debt, the long-term financial strategy of the company, and the overall financial strength of the company. As for the components of the rates, he said bond holders would likely prefer to see more guaranteed revenue. Mike Odom stated that was his assumption, and with less volatility, a better rate is likely offered, which saves money in the long term. Stephen Smith inquired, and Mark Walker clarified, the bond rating was not a reason for KUB's decision to increase the fixed fee. He explained the decision was based on consideration of the best way to pay for the infrastructure investments, what would be the best way to communicate the needs to the customers, and that all customers were going to benefit from the Century II program.

Dr. Jerry Askew, KUB Board Chair, expressed that he agrees with Dr. Smith in that this is a policy decision by the Board, and that the Board has tried to find the right balance in caring for and assisting lower income customers while also taking actions to benefit the environment, both of which he cares about deeply. He explained he does not believe putting more cost into the variable rate is beneficial for lower income customers, and it is bothersome to him when people imply that what the Board is doing is harmful to those customers. He explained a higher variable rate would be especially difficult for low income customers during extreme weather.

Dr. Smith noted some of the panel members have been talking and intend to propose a low income rate. Tiki Dixon said he has been trying to keep an open mind, and he is looking forward to discussion by panel members and he is hopeful everyone on both sides will keep an open mind through discussion of this complicated matter. Haseeb Qureshi said that more data may be helpful to the panel.

Amy Midis noted as she is looking at the data for the difference in bills between KUB and EPB, a utility with a lower fixed fee, she is seeing a total difference of five dollars at 500 kilowatt hours of usage. She questioned if that difference is significant enough for a lower income customer to make a behavior changes. Dr. Smith stated he believes it is significant enough. Ms. Midis expressed she would be concerned in colder weather months, the customer could end up paying more than they would save in other months.

Dr. Smith spoke about the Southern Alliance for Clean Energy's (SACE's) campaigns in parts of the country as well as against KUB to promote reductions in fixed fees. He requested to have time on the agenda at the next meeting for he and his SACE staff to make a presentation on alternative rate designs.

The meeting adjourned at 4:35 p.m.