



THE VPU QUARTERLY

a newsletter published by Virginia Public Utilities

January 2022

The office will be closed on the following dates:

January 17th

February 21st

VPU — QUICK NOTES

KNOW THE SMELL OF NATURAL GAS—BE SAFE!

If there is a faint smell of natural gas, call VPU at 218-748-7540.

If in doubt, leave the building immediately & call 9-1-1.

DIRECT PAY

Sign up for Direct Pay, and eliminate the need to write out a check each month.

Enrollment forms are available in the VPU office, or on our website at www.vpuc.com

Before You Dig.

Contact Gopher State One Call

Dial 8-1-1 or 800-252-1166 or www.gopherstateonecall.org

WINTER REMINDERS

Please keep access to all outside meters shoveled. It is especially important to keep gas meters and regulators free of snow and ice to prevent malfunctioning.

If you have a fire hydrant near your home and are able, please keep the hydrant clear of snow.

Success of Steam District Retrenchment

Just over four years ago, a City forum was held where citizens were informed of the Utility's two-stage, four-year plan to again shut down portions of the steam system. The buyout of the LEA contract had provided the financial resources to support this action and the stage was set for the Utility's third attempt. Naysayers frequented our offices warning of the impossibility of getting it done by November of 2021 and of the huge costs involved as we operated a plant while steam sales plummeted. The costs we could forecast, but the customer response to our plan, we could not predict. In fairness, comparing our efforts to those of previous efforts are a bit unfair as other fuels did not afford near the savings then as natural gas does now.

Because we knew getting all steam customers in these areas to convert was not going to be an easy task, early on we enlisted the help of Vince Meyer of AEOA to provide no-cost guidance to those who asked for it, low income or not. Every mailer we sent out mentioned his services. This was invaluable in getting people who were apprehensive about the process to see it through. As the shut-downs drew near, the Utility began a calling campaign for those customers who had not yet acted. It was sad and frustrating that so many seemed oblivious to our calls, refusing to answer or respond to our messages. Despite our efforts, there were people who did nothing, who truly chose to be left in the cold.

Thanks to the many customers who stepped up and addressed the matter. We began this process with 1,252 customers who needed to convert. Of these, 230 converted to natural gas in 2018, another 330 were completed in 2019, 306 in 2020, and roughly 260 will have been completed by the end of 2021. Roughly 50 customers converted to electric heating. Roughly 40 houses have been permanently winterized or abandoned, and approximately 30 conversions remain to be completed and are on temporary electric heat. As with the Southside shut-down, a small cadre of people were left without steam heat, but all these had access to temporary electric heat for their residences.

A big thank you should also go out to those HVAC contractors who stepped up and delivered on the steam conversions. We had one local Virginia contractor that did about 1/3rd of the conversions, while about a dozen other contractors from the Hibbing, Eveleth, Gilbert, and Cook areas picked up the remaining 800 conversions. Some contractors were plagued with finding capable employees, and COVID created some obstacles, but all in all, these contractors came through.

I would estimate we had about 30 conversion customers who were not fully satisfied with their contractor. Only four customers got burned by unscrupulous contractors who either took the down-payment and disappeared, or did such poor work that it needed to be redone. The Utility stepped in to help in these cases.

Rates for 2022

ELECTRIC– Two years ago VPU joined thirteen other municipal utilities in MP's service territory to form the Northeast Minnesota Municipal Power Association (NEMMPA). Cities from Pierz – just southeast of Brainerd - to Ely, and ranging in load from less than 1MW in Randall to roughly 29.5 MW in Grand Rapids. The purpose of this organization was to unify wholesale purchasers of MP for the purpose of negotiating a power contract either with MP or other suitors. During this round of negotiations, a process which happens roughly every five years, the group exerted heavy pressure on MP to drop the old cost-plus style contract and negotiate a contract that was more reflective of current contracts in the industry. Utilizing the services of Dave Berg Consulting, an outside negotiator, NEMMPA succeeded in reaching an agreement with MP, which was approved by the VPU Commission at its October meeting. The agreement, for VPU, resulted in a significant savings over the previous contract. During 2021 the Utility's electric customers saw electric purchased power adjustments rise from roughly \$.04/kwh in the beginning of the year to roughly \$.06/kwh at the end of the year. Although it is difficult to predict, beginning January 1, 2022, customers should see the purchased power adjustment decrease to within the range of \$.034/kwh to \$.04/kwh.

NATURAL GAS – Lately, there has been much in the news about natural gas pricing for this winter. Current market prices have spiked up significantly since late summer due in part by weather related issues, but also due to increased demand for electric generation and exports to Mexico and overseas. This additional demand has not been met with increased production. Since February the natural gas rig count has not budged. Producers, reacting to a hostile political environment, have been reluctant to invest in well infrastructure. Because the Utility's natural gas purchasing program has already purchased 92% of the City's average gas load, the impact of any additional purchases at these higher prices will be minimized, so customers can expect to have no change in natural gas prices for this heating season.

WATER– Effective January 1, 2022, the Utility will be increasing its price on water to \$3.75 per unit. This \$.75 increase is driven by increased water treatment chemical costs, increased investment in water tower maintenance and water main infrastructure associated with the City's street improvement program. For the average residential customer, who uses 4.5 units of water per month, this increase will amount to roughly \$3.38 per month.

STEAM – As part of the steam conversion process, the Utility attempted to retain downtown businesses by dropping the price of its steam to the business core to a price more in line with that of natural gas plus the cost of replacing a boiler every 15 to 20 years. It is unfortunate that many downtown businesses, governmental services buildings, and the school district, have decided to exit the district regardless of the lower price. The Utility will continue to make good on its promise to hold the line on the price of steam through the conversion process, which includes a year of operations after the shutdown of the Southside and Northside areas for the purpose of assessing whether the core district is viable or not.



Crews are setting the 37,000 lb, 7.5m VA transformer for a new substation located near 10th St S and 1st Ave.

The Utility Begins Move to a New Era

From its earliest beginnings in 1893, power generation for the City has taken place at our downtown power plant; by private business owners at first and then, in 1913, by the municipal utility. But, because of economies of scale and technological innovation, operating an older small-scale power facility is not cost effective, and so, as of February of 2021, the Utility's generators have been mothballed. Because the power plant originally was the sole source of power in the city, in early years power radiated out via feeders to various parts of the city utilizing a hub and spoke type network. In the 1960's the Utility began its long-standing relationship with Minnesota Power when MP installed a power feed into town. To do this they had to bring power directly to the hub of our distribution system, the power plant. Over the past 60 years our power distribution system has added power drops from MP in Olcott Park, in

Ridgewood, at P&H Mine-Pro (now called Komatsu), in Midway, and now on the east side of town where the new Emergency Services Building will be located. This substation will continue our strategy of dispersing load. Ultimately, we have a system whereby we can draw power in to our city via seven different drops off MP's distribution lines or we could feed the main portion of the City (Midway excluded) from the hub of our system, the power plant. With the addition of this substation, the Utility's redundant capacity will allow it to serve peak summer and winter loads from multiple directions.