



# Special Working Session

MAY 12<sup>TH</sup>, 2025



**Commission Work Session Agenda**

**May 12<sup>th</sup>, 2025**

|                                   |   |                                  |   |
|-----------------------------------|---|----------------------------------|---|
| Chair J. Hart                     | — | Commissioner J. Bayliss          | — |
| Commissioner J. Stokes            | — | Commissioner J. Babich           | — |
| Commissioner J. Sandstede         | — | Legal Counsel A. Borland         | — |
| General Manager L. Peterson       | — | Auditors Abdo, LLP               | — |
| Utility Operations S. Dickinson   | — | Energy & Pricing P. Plombon      | — |
| Customer Ser. & Finance J. Zallar | — | Admin & Comm E. Dixon            | — |
| Electrical Operations S. Adams    | — | Local 94 President Rich Kampsula | — |

**1. 2025 Budget Discussion**





Item 1



## Item 1 – 2025 Budget Discussion

May 12<sup>th</sup>, 2025

Jeff Hart, Chairman  
Hibbing Public Utilities Commission  
1902 E. 6<sup>th</sup> Avenue  
Hibbing, MN 55746

RE: Item 1 – 2025 Budget Discussion

Dear Commissioners;

The following documents pertain to HPU's 2025 Budgeting Discussion. Staff have prepared two budgeting options for the consideration of the Commission. Each option contains detailed descriptions of the impact for both the utility and the customer.

The options are divided as follows:

- Option 1 – Includes the baseline recommendations from Baker Tilly's Rate Study
- Option 2 - This option was developed based upon Commission feedback to Baker Tilly's Rate Study

Please feel free to reach out if there are any questions or if additional information is needed in the meantime.

Sincerely;



Luke J. Peterson





# HPUC 2025-2027 Budget Assumptions

## 2025 Budget Assumptions

January-March are 2025 actual values.

April-December 2025:

1. Projections based on contract values and quotes when possible including union wages, payroll benefits, insurance and leases.
2. Cost of gas and electricity for distribution and HREC tied to load forecasts and contract prices.
3. Other expenses based on 2024 actuals.

## 2026-2027 Revenue

Sales forecasted with 0% growth.

Prices based on 2 alternative rate proposals designed to achieve a 5% rate of return by the end of December 2029.

Differences from the rate study projections revenue submitted by Baker Tilly and the internally prepared budget include:

1. Dates of implementation changed from January 1 to July 1<sup>st</sup> 2025.
2. Rate study revenue was based on 2023 revenue and projected a 1% load increase for electric for 2024-2027.
3. The rate study assumed a PPA addition electric charge of .005/KwH would remain effective. The PPA rate was eliminated 4/23/2024.

## 2026-2027 Expenses

Internally prepared budget forecasted expenses bases on a 2.5% increase from 2024 actual across the board.

Differences from the rate study projections include:

1. Rate study cost projections prepared by Baker Tilly were based on an annualization of January-August 2024 actuals projected with a 2.5% increase.

**The rates proposed in the rate study are designed to result in a uniform rate of return across utilities by the end of 2029. Variances in assumptions and actual results will cause results to differ from projections.**



## Hibbing Public Utilities Commission

### Statements of Revenues, Expenses and Changes in Net Position

#### **DRAFT - Based on original rate study proposal**

Electric 5.4%, Water 11.25%, Gas -4.5%, Steam 3.5%

|                                | 2027 Budget       | 2026 Budget       | 2025 Budget       | 2024 Actual       |
|--------------------------------|-------------------|-------------------|-------------------|-------------------|
| <b>Operating Revenues</b>      |                   |                   |                   |                   |
| Electric                       | 20,256,393        | 19,229,917        | 18,256,032        | 17,559,480        |
| Water                          | 4,027,970         | 3,637,166         | 3,360,881         | 3,183,722         |
| Gas                            | 7,544,241         | 7,938,560         | 8,310,169         | 7,787,305         |
| Steam                          | 2,703,674         | 2,612,956         | 2,525,305         | 2,325,324         |
| Total operating revenues       | \$ 34,532,278     | \$ 33,418,599     | \$ 32,452,387     | \$ 30,855,831     |
| <b>Operating Expenses</b>      |                   |                   |                   |                   |
| Electric                       | 21,426,235        | 20,903,644        | 20,393,799        | 19,183,548        |
| Water                          | 3,015,759         | 2,942,204         | 2,870,443         | 2,334,467         |
| Gas                            | 5,817,882         | 5,675,983         | 5,537,544         | 5,362,834         |
| Steam                          | 3,569,354         | 3,482,297         | 3,397,363         | 3,395,383         |
| Total operating expenses       | 33,829,230        | 33,004,127        | 32,199,148        | 30,276,232        |
| <b>Operating Income (Loss)</b> | <b>\$ 703,048</b> | <b>\$ 414,471</b> | <b>\$ 253,238</b> | <b>\$ 579,599</b> |

#### Net Operating Income Displayed By Utility - Original Rate Study Presentation

|                                    | 2027 Budget    | 2026 Budget    | 2025 Budget    | 2024 Actual    |
|------------------------------------|----------------|----------------|----------------|----------------|
| <b>Net Operating Income (Loss)</b> |                |                |                |                |
| Electric                           | (1,169,842)    | (1,673,726)    | (2,137,767)    | (1,624,068)    |
| Water                              | 1,012,211      | 694,962        | 490,438        | 849,255        |
| Gas                                | 1,726,359      | 2,262,577      | 2,772,624      | 2,424,471      |
| Steam                              | (865,680)      | (869,341)      | (872,058)      | (1,070,059)    |
| Admin/General                      |                |                |                |                |
| <b>Net Operating Income (Loss)</b> | <b>703,048</b> | <b>414,471</b> | <b>253,238</b> | <b>579,599</b> |



**Hibbing Public Utilities Commission****Statements of Revenues, Expenses and Changes in Net Position****DRAFT - Based on Rate Study Proposal - alternative option**

Electric 5%, Water 5.33%, Gas 0%, Steam 3.5%

|                                | 2027 Budget       | 2026 Budget       | 2025 Budget       | 2024 Actual       |
|--------------------------------|-------------------|-------------------|-------------------|-------------------|
| <b>Operating Revenues</b>      |                   |                   |                   |                   |
| Electric                       | \$ 20,066,270     | \$ 19,121,262     | \$ 18,221,256     | \$ 17,559,480     |
| Water                          | \$ 3,528,835      | \$ 3,358,532      | \$ 3,271,846      | \$ 3,183,722      |
| Gas                            | \$ 8,435,888      | \$ 8,435,888      | \$ 8,435,888      | \$ 7,787,305      |
| Steam                          | \$ 2,703,674      | \$ 2,612,956      | \$ 2,525,305      | \$ 2,325,324      |
| Total operating revenues       | \$ 34,734,667     | \$ 33,528,638     | \$ 32,454,295     | \$ 30,855,831     |
| <b>Operating Expenses</b>      |                   |                   |                   |                   |
| Electric                       | \$ 21,426,235     | \$ 20,903,644     | \$ 20,393,799     | \$ 19,183,548     |
| Water                          | \$ 3,015,759      | \$ 2,942,204      | \$ 2,870,443      | \$ 2,334,467      |
| Gas                            | \$ 5,817,882      | \$ 5,675,983      | \$ 5,537,544      | \$ 5,362,834      |
| Steam                          | \$ 3,569,354      | \$ 3,482,297      | \$ 3,397,363      | \$ 3,395,383      |
| Total operating expenses       | \$ 33,829,230     | \$ 33,004,127     | \$ 32,199,148     | \$ 30,276,232     |
| <b>Operating Income (Loss)</b> | <b>\$ 905,437</b> | <b>\$ 524,511</b> | <b>\$ 255,146</b> | <b>\$ 579,599</b> |

| Net Operating Income Displayed By Utility - No decrease in gas rates |                   |                   |                   |                   |
|--|-------------------|-------------------|-------------------|-------------------|
|  | 2027 Budget       | 2026 Budget       | 2025 Budget       | 2024 Actual       |
| <b>Net Operating Income (Loss)</b>                                   |                   |                   |                   |                   |
| Electric   | \$ (1,359,965)    | \$ (1,782,381)    | \$ (2,172,543)    | \$ (1,624,068)    |
| Water  | \$ 513,076        | \$ 416,328        | \$ 401,404        | \$ 849,255        |
| Gas  | \$ 2,618,006      | \$ 2,759,905      | \$ 2,898,344      | \$ 2,424,471      |
| Steam  | \$ (865,680)      | \$ (869,341)      | \$ (872,058)      | \$ (1,070,059)    |
| Admin/General  |                   |                   |                   |                   |
| <b>Net Operating Income (Loss)</b>                                   | <b>\$ 905,437</b> | <b>\$ 524,511</b> | <b>\$ 255,146</b> | <b>\$ 579,599</b> |

Option # 2

Electric 5%, Gas 0%, Steam 3.5%, Water 5.33%

**Hibbing Public Utilities and City of Hibbing  
Average Customer Monthly Bill**

| Small Residential   | Annual Increase | Consumption | Current Bill | 2025      | 2026      | 2027      | 2028      | 2029      |
|---|-----------------|-------------|--------------|-----------|-----------|-----------|-----------|-----------|
| <b>Hibbing Public Utilities</b>                               |                 |             |              |           |           |           |           |           |
| Electric - Residential & Senior Discount                      | 5.00%           | 638 kWh     | \$ 102.12    | \$ 107.22 | \$ 112.55 | \$ 118.18 | \$ 124.09 | \$ 130.29 |
| Gas - Residential Heat  | 0.00%           | 75 CCF      | 78.59        | 78.59     | 78.59     | 78.59     | 78.59     | 78.59     |
| Steam - Residential   | 3.50%           | 10 Mlbs     | 208.00       | 215.28    | 222.81    | 230.61    | 238.68    | 247.04    |
| Water - Residential   | 5.33%           | 6,000 Gal   | 41.30        | 43.50     | 45.80     | 48.20     | 51.20     | 54.30     |
| Total   |                 |             | \$ 430.01    | \$ 444.60 | \$ 459.76 | \$ 475.58 | \$ 492.56 | \$ 510.23 |
| Total HPU % Increase  |                 |             |              | 3.4%      | 3.4%      | 3.4%      | 3.6%      | 3.6%      |
| <b>City of Hibbing</b>  |                 |             |              |           |           |           |           |           |
| Sewer - Residential   | 5.00%           | 6,000 Gal   | \$ 55.81     | \$ 58.60  | \$ 61.53  | \$ 64.61  | \$ 67.84  | \$ 71.23  |
| Total Monthly Bill for All Services - HPU and City of Hibbing |                 |             | \$ 485.82    | \$ 503.20 | \$ 521.29 | \$ 540.19 | \$ 560.40 | \$ 581.46 |
| Total % Increase  |                 |             |              | 3.6%      | 3.6%      | 3.6%      | 3.7%      | 3.8%      |

| Commercial  | Annual Increase | Consumption | Current Bill | 2025         | 2026         | 2027         | 2028         | 2029         |
|---|-----------------|-------------|--------------|--------------|--------------|--------------|--------------|--------------|
| <b>Hibbing Public Utilities</b>                               |                 |             |              |              |              |              |              |              |
| Electric - Large Power  | 5.00%           | 112,062 kWh | \$ 12,557.27 | \$ 13,185.08 | \$ 13,844.34 | \$ 14,536.55 | \$ 15,263.44 | \$ 16,026.61 |
| Gas - Commercial Heat   | 0.00%           | 535 CCF     | 501.89       | 501.89       | 501.89       | 501.89       | 501.89       | 501.89       |
| Steam - Commercial  | 3.50%           | 57 Mlbs     | 1,111.87     | 1,150.79     | 1,191.07     | 1,232.75     | 1,275.90     | 1,320.56     |
| Water - Commercial  | 5.96%           | 6,000 Gal   | 61.37        | 65.03        | 68.52        | 72.67        | 76.99        | 81.47        |
| Total   |                 |             | \$ 14,232.40 | \$ 14,902.79 | \$ 15,605.81 | \$ 16,343.86 | \$ 17,118.21 | \$ 17,930.53 |
| Total HPU % Increase  |                 |             |              | 4.7%         | 4.7%         | 4.7%         | 4.7%         | 4.7%         |
| <b>City of Hibbing</b>  |                 |             |              |              |              |              |              |              |
| Sewer - Residential   | 5.00%           | 6,000 Gal   | \$ 55.81     | \$ 58.60     | \$ 61.53     | \$ 64.61     | \$ 67.84     | \$ 71.23     |
| Total Monthly Bill for All Services - HPU and City of Hibbing |                 |             | \$ 14,288.21 | \$ 14,961.39 | \$ 15,667.34 | \$ 16,408.47 | \$ 17,186.05 | \$ 18,001.76 |
| Total % Increase  |                 |             |              | 4.7%         | 4.7%         | 4.7%         | 4.7%         | 4.7%         |

**Hibbing Public Utilities and City of Hibbing  
Change in Average Monthly Customer Bill**

| Small Residential   | Annual Increase | Consumption |  | 2025     | 2026     | 2027     | 2028     | 2029     |
|---|-----------------|-------------|--|----------|----------|----------|----------|----------|
| <b>Hibbing Public Utilities</b>                               |                 |             |  |          |          |          |          |          |
| Electric - Residential & Senior Discount                      | 5.00%           | 638 kWh     |  | \$ 5.10  | \$ 5.33  | \$ 5.63  | \$ 5.91  | \$ 6.20  |
| Gas - Residential Heat  | 0.00%           | 75 CCF      |  | -        | -        | -        | -        | -        |
| Steam - Residential   | 3.50%           | 10 Mlbs     |  | 7.28     | 7.53     | 7.80     | 8.07     | 8.36     |
| Water - Residential   | 5.33%           | 6,000 Gal   |  | 2.20     | 2.30     | 2.40     | 3.00     | 3.10     |
| Total   |                 |             |  | \$ 14.58 | \$ 15.16 | \$ 15.83 | \$ 16.98 | \$ 17.66 |
| Total HPU % Increase  |                 |             |  | 3.4%     | 3.4%     | 3.4%     | 3.6%     | 3.6%     |
| <b>City of Hibbing</b>  |                 |             |  |          |          |          |          |          |
| Sewer - Residential   | 5.00%           | 6,000 Gal   |  | \$ 2.79  | \$ 2.93  | \$ 3.08  | \$ 3.23  | \$ 3.39  |
| Total Monthly Bill for All Services - HPU and City of Hibbing |                 |             |  | \$ 17.37 | \$ 18.09 | \$ 18.90 | \$ 20.21 | \$ 21.06 |
| Total % Increase  |                 |             |  | 3.6%     | 3.6%     | 3.6%     | 3.7%     | 3.8%     |

| Commercial  | Annual Increase | Consumption |  | 2025      | 2026      | 2027      | 2028      | 2029      |
|---|-----------------|-------------|--|-----------|-----------|-----------|-----------|-----------|
| <b>Hibbing Public Utilities</b>                               |                 |             |  |           |           |           |           |           |
| Electric - Large Power  | 5.00%           | 112,062 kWh |  | \$ 627.81 | \$ 659.25 | \$ 692.22 | \$ 726.88 | \$ 763.17 |
| Gas - Commercial Heat   | 0.00%           | 535 CCF     |  | -         | -         | -         | -         | -         |
| Steam - Commercial  | 3.50%           | 57 Mlbs     |  | 38.92     | 40.28     | 41.68     | 43.15     | 44.66     |
| Water - Commercial  | 5.33%           | 6,000 Gal   |  | 3.66      | 3.49      | 4.15      | 4.32      | 4.49      |
| Total   |                 |             |  | \$ 670.39 | \$ 703.02 | \$ 738.05 | \$ 774.35 | \$ 812.32 |
| Total HPU % Increase  |                 |             |  | 4.7%      | 4.7%      | 4.7%      | 4.7%      | 4.7%      |
| <b>City of Hibbing</b>  |                 |             |  |           |           |           |           |           |
| Sewer - Residential   | 5.00%           | 6,000 Gal   |  | \$ 2.79   | \$ 2.93   | \$ 3.08   | \$ 3.23   | \$ 3.39   |
| Total Monthly Bill for All Services - HPU and City of Hibbing |                 |             |  | \$ 673.18 | \$ 705.95 | \$ 741.12 | \$ 777.58 | \$ 815.71 |
| Total % Increase  |                 |             |  | 4.7%      | 4.7%      | 4.7%      | 4.7%      | 4.7%      |

**Hibbing Public Utilities Commission**

Operating Income/Expenses

One Month Ended April 30, 2025 and Year to Date

|                                     |                    |                  | <b>Option # 2</b>    |                    |
|-------------------------------------|--------------------|------------------|----------------------|--------------------|
|                                     |                    |                  | <b>2025 Draft</b>    |                    |
|                                     | <b>April, 2025</b> | <b>YTD 2025</b>  | <b>Annual Budget</b> | <b>% of budget</b> |
| <b>Electric</b>                     |                    |                  |                      |                    |
| Operating Revenues                  | 1,396,999          | 6,348,405        | 17,786,549           | 36%                |
| Other Revenue                       | 15,767             | 60,029           | 434,707              | 14%                |
| Total Electric Revenue              | 1,412,766          | 6,408,534        | 18,221,256           | 35%                |
| Operating Expenses                  | 1,309,207          | 4,847,740        | 17,107,709           | 28%                |
| Depreciation and Amortization       | 313,364            | 1,131,041        | 3,286,090            | 34%                |
| Total Electric Expenses             | 1,622,571          | 6,520,583        | 20,393,799           | 32%                |
| Operating Income (Loss)             | (209,805)          | (112,049)        | (2,172,543)          |                    |
| <b>Water</b>                        |                    |                  |                      |                    |
| Operating Revenues                  | 236,504            | 983,336          | 3,208,498            | 30%                |
| Other Revenue                       | 9,519              | 38,696           | 63,348               | 61%                |
| Total Water Revenue                 | 246,023            | 1,022,032        | 3,271,846            | 31%                |
| Operating Expenses                  | 178,122            | 541,722          | 1,850,443            | 29%                |
| Depreciation                        | 88,700             | 320,746          | 1,020,000            | 31%                |
| Total Water Expenses                | 266,822            | 862,468          | 2,870,443            | 30%                |
| Operating Income (Loss)             | (20,799)           | 159,564          | 401,403              |                    |
| <b>Gas</b>                          |                    |                  |                      |                    |
| Operating Revenues                  | 888,215            | 5,120,570        | 8,383,697            | 61%                |
| Other Revenue                       | 5,334              | 22,913           | 52,191               | 44%                |
| Total Gas Revenue                   | 893,549            | 5,143,483        | 8,435,888            | 61%                |
| Operating Expenses                  | 420,062            | 2,622,869        | 5,171,544            | 51%                |
| Depreciation                        | 32,600             | 118,298          | 366,000              | 32%                |
| Total Gas Expenses                  | 452,662            | 2,741,167        | 5,537,544            | 50%                |
| Operating Income (Loss)             | 440,888            | 2,402,316        | 2,898,344            |                    |
| <b>Steam</b>                        |                    |                  |                      |                    |
| Operating Revenues                  | 233,581            | 1,390,070        | 2,504,308            | 56%                |
| Other Revenue                       | 8,556              | 33,333           | 20,997               | 159%               |
| Total Steam Revenue                 | 242,137            | 1,423,403        | 2,525,305            | 56%                |
| Operating Expenses                  | 278,774            | 1,025,997        | 2,378,563            | 43%                |
| Depreciation                        | 85,400             | 318,183          | 1,018,800            | 31%                |
| Total Steam Expenses                | 364,174            | 1,344,180        | 3,397,363            | 40%                |
| Operating Income (Loss)             | (122,037)          | 79,222           | (872,058)            |                    |
| <b>Net Operating Income/Expense</b> | <b>88,247</b>      | <b>2,529,054</b> | <b>255,146</b>       |                    |