

HARRIMAN UTILITY BOARD APPROVES BUDGETS FOR 2010-2011 FISCAL YEAR

At its regular meeting on June 28, 2010 the Harriman Utility Board approved budgets for its electric, gas, water and sewer departments. The Board had met in three workshop sessions prior to the meeting to discuss the budget items requested to determine which were necessary in the next fiscal year and which might be delayed to future years. In addition to approving budgets in the four departments, the following actions were taken:

Electric Dept.

An independent consultant hired by the Board determined that our residential base charge was about \$3/month less than our actual fixed cost per customer and recommended that the Board increase the base charge by that amount. The base rate should reflect the total fixed costs of serving an individual customer regardless of how much power they consume. It encompasses, among other items, the cost of reading meters, generating and mailing bills, collecting and accounting for payments, overhead, cost of substations, wire, poles, transformers, etc. The Board elected to implement this increase gradually with a \$1.50 increase effective October 1, 2010 and another \$1.50 increase on April 1, 2011. These actions will raise the base charge from its current \$7.93 per month to \$10.93. The Board made no changes in electric rates for residential or commercial customers but will continue to pass through the TVA Fuel Cost Adjustment (FCA) each month as it has been doing for several years. The Board also approved the borrowing of funds for specific projects which will be discussed below.

Gas Dept.

For the second year in a row the Board voted to decrease its gas rate. Following a 5% decrease last year, the Board approved a 3% decrease for this year, effective July 1, 2010, lowering the rate from \$13.85 to \$13.43 per mcf. For the average gas customer using about 813 mcf per year, this equates to a \$35 annual savings.

Water Dept.

The Board will install a new water tank this year to replace the concrete reservoir on Ladd Mt. which was removed from service in 2009. Additionally, the Board will install a new water line across the Emory River to increase flow to South Harriman to provide needed fire protection upgrades and improve quality of water service. Another major cost item is the work we're undertaking to repair and replace lines on streets the city is getting ready to pave. Once the cost of these projects is determined and financing arrangements are made, a monthly charge will be assessed to all HUB water customers to retire this debt. Based on current cost estimates, it is anticipated that this will require approximately \$1.52 per month per customer for about a twenty year period. The Board voted to maintain water usage rates at their current level.

Sewer Dept.

The City of Harriman and HUB are under an agreed order with the State of Tennessee to make upgrades and improvement to our sewer system. We have been working on the items required under this order for almost 10 years and have expended in excess of

\$10 million derived from grants, loans and revenues collected from our customers. Obviously, this work could not be accomplished without significant increases in our sewer rates, primarily to retire existing and future debt. The Board has elected to implement increases gradually over a period of several years. The increase approved by the Board this year is 7% which will go into effect July 1, 2010. For the average customer using 4,000 gallons of water, this will mean an increase of \$2.97 per month or an annual increase of \$35.64.

Note that for a customer having both gas and sewer service, the gas rate decrease will just about offset the sewer rate increase, while the electric and water bills should only increase by \$1.50 (\$3 after 4-1-2010) and \$1.52, respectively.

In addition to the work described above there are a few other projects worth mentioning. There are plans in the Electric Department to begin research into and selection of an AMI metering system to begin development of a "smart grid" which would enable us to implement anticipated TVA time-of-use billing (projected to be available 10-1-2012). Such a system would also eventually allow our customers to control their loads on and off peak as well as control their demands (maximum usage at any given moment), to lower their bills. Once plans are finalized it is expected that the Board will borrow the funds necessary to purchase and install the system over a period of time. Early projections estimate the amount to be borrowed for this project at \$2.1 million. It is anticipated that another \$1.6 million will be borrowed for specific projects which include:

1. Conversion of the 2.4 kV electric system in the Cornstalk Heights area of Harriman to 13.2 kV which will save money by reducing line losses.
2. Rehabilitation of electric circuits in Pine Hills Subdivision.
3. The three-phasing of the circuit on Edwards Rd. connecting Clax Gap and Mays Valley Roads to Sugar Grove Valley Road.
4. The relocation of a section of feeder line near Oakdale from its current off-road route to along the highway to facilitate maintenance and quicker power restoration.

HUB is also in the design phase for a new warehouse to replace the current one in the flood plain of the Emory River. We are attempting to get grants to pay a large portion of this future expense and expect to fund the balance through borrowing. The cost of the warehouse facility will be primarily borne by the electric department.

HUB has been approved for Tennessee State Revolving Fund (SRF) grant/loans in the water and sewer departments. We anticipate using the water funds to locate and repair water leaks in our system which will have the long range effect of lowering our treatment and pumping costs. The sewer funds will primarily be used for line replacement and repairs as required under the state order described above. The grant portion of this money reduces the amount HUB has to borrow to do this work.

If you have any questions about HUB please call us at 865-882-3242 or visit our website at www.hub-tn.com.