

**P2016-13**  
**City of Salem**  
**Request for Services to Review City of Salem Gas Rates**  
**July 11, 2016**

**BACKGROUND**

The City of Salem is a natural gas utility which services approximately 3,300 residential, commercial, and industrial customers. In a two-step process, Salem has modified its natural gas rate structure from an essentially single tier structure to a structure with four rate classes (description of structure below). This restructuring was intended to better account for the actual cost of serving Salem's larger, industrial customers.

The City strives to strike a proper balance of the (1) monthly meter and (2) distribution charge in the City's rate structure so that the rates charged to generate revenues to cover the City's operational costs are equitable assessed for customers across the City's four rate classes.

The City purchases its natural gas from the market (through the NGPL pipeline) and from a local oil field (Citation Oil Company).

**REQUEST**

The City Manager requests a proposal entailing the review of the City's natural gas rate structure, specifically the monthly meter and distribution charges levied on customers in the City's four-tier rate structure. These charges are levied in order to generate revenues to cover departmental operating costs. An opinion, in the form of a report to be addressed to the City Manager, on whether the meter and distribution charges are properly balanced among rate classes is desired.

**SUBMISSION PROCESS/TERMS**

- 1. Submission Standard & Deadline →** Proposal submissions may be mailed, emailed, or faxed. Please address proposals to the City Manager, 101 South Broadway, Salem, Illinois, 62881, [ctymgr@salemil.us](mailto:ctymgr@salemil.us), or 618-548-5330. ***Deadline for submissions is August 3, 2016 at 10:00 am. Deadline extended to August 19, 2016 at 10:00 am.***
- 2. Selection Process →** Submissions will be opened and reviewed after deadline by the City Manager. Submissions will be available for public review after deadline, but they may not be edited or amended after submission to the City. Final selection may be made by either the City Manager or the full City Council. The City reserves the right to request additional information or clarification from those submitting proposals. Submitters may be asked to provide an oral presentation as part of the evaluation process. The City further reserves the right to accept the proposal which, in its judgment is the lowest cost and best proposal, to reject any or all proposals, and to waive irregularities or informalities in any proposal submitted. **In other words, the City reserves the right to accept the proposal which, in its judgment, and regardless of cost, best accomplishes the project described in this request.** All firms making proposal agree that rejection of any proposal shall be without liability on the part of the City, and firms making proposal shall not seek recourse of any kind against the City because of such rejection. The filing of any proposal shall constitute an agreement of the firm making proposal to the terms and conditions of these Instructions to firms making proposal.
- 3. Rights Reserved →** All rights and remedies afforded to the City of Salem by law, ordinance, or policy of the City shall be retained, whether or not specified in this proposal request.

## DESCRIPTION OF RATES, STRUCTURE, AND BUDGET

### 4. Rates and Structure → Distribution and monthly meter charges are as follows:

Rate Class	Monthly Meter Charge	Distribution Charge
R1	\$5.00	\$.3803
R2	\$28.00	\$.1000
R3	\$178.00	\$.0900
R4	\$503.00	\$.0690

### 5. Components of Total Gas Charge → The total gas charge levied on Salem customers includes five components, as noted below.

<i>Cost of gas supply +</i>	<i>BTU adjustment +</i>	<i>Monthly meter charge +</i>	<i>"Distribution" charge +</i>	<i>Taxes</i>
A blending of actual gas costs from market/NGPL and Citation, including transportation and storage costs assessed by NGPL. Charged per therm. Calculated by City contractors, intended to recapture costs of natural gas supply from prior month. Cost of supply is the same for all City customers.	City bills customers per therm of natural gas consumed. The BTU adjustment is calculated by City contractors and adjusts the number of therms billed to customers each month.	Monthly meter charge is paid by all active, gas customers. Customers pay a fixed charge per month depending upon which rate class they are in. Is not charged per therm. The monthly meter charge increases for larger customers.	Charged per therm. Charge is fixed depending upon customer class. The distribution charge decreases for larger customers.	As assessed by Illinois statute.

### 6. Gas Dept Budget → Some highlights of the FY17 budget for the Salem Gas Dept:

Total FY17 budget	\$3,428,580
Purchase of gas supply	\$1,706,250
Taxes	\$65,000
Dept operations & administrative expense (to City Hall)	\$1,657,330

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