

APRIL 23, 2012

Minutes of the monthly meeting of the Municipal Services Commission held April 23, 2012 at the office of the Commission, 216 Chestnut Street. The meeting was called to order at 4:00 P.M. with Robert S. Appleby, President, Commissioner, presiding.

Attendance Report:

Present:

Robert S. Appleby, President, Commissioner
Daniel F. Knox, Commissioner
Dr. Roy J. Sippel, Commissioner
Francis L. Patterson, Secretary
Pamela A. Patone, Comptroller

MINUTES

Commissioner Knox said in reading the minutes he had no recollection of a discussion about medical benefits after a person retires which was reflected in the minutes. Secretary Patterson said he could play a tape of the minutes for Commissioner Knox if that would help his recollection. Commissioner Knox said he remembers there was substantial discussion about "Compensatory Time" but he did not see any action taken in the minutes. Secretary Patterson said there was no action taken since the Commissioners did not change the policy to follow the recommendation of the Compensation Committee. With the concurrence of all the Commissioners the minutes of the March 16, 2012 regular monthly meeting were approved without alteration.

COMPTROLLER'S REPORT

Comptroller Patone began her reports by telling the Commissioners the Converting Solutions Bankruptcy Committee recommended unsecured creditors accept 16.4% of the monies owed them as settlement of Converting Solutions debt. She said on the recommendation of legal counsel and consultation with the Secretary the MSC voted against the plan. She said in other collection related items Karen Lynch and she met with three collection agencies to discuss means of recovering from customers who leave owing money. She said the agencies she interviewed work with several of the municipal systems and that she would have a recommendation for the next meeting.

The Comptroller presented her plan and recommendation to change the commercial deposit policy. She said she is recommending the MSC pay interest on customer deposits. She told the Commissioners she proposes to put the money in an interest bearing account or money market account and whatever the account earned she would allocate proportionally to the customers. The Commissioners asked her how she would pay out the interest and she responded she would add it to their deposit. After discussion the Commissioners said they didn't have a problem with her proposal. The Comptroller said she will draft an amendment to the tariff and present it at the May meeting. Commissioner Knox cautioned that the Comptroller may have to issue 1099's to customers as interest rates increase.

The Comptroller said this month's financial reports are the 12 month year-end reports but will still need to be adjusted when she has certain actual numbers. She said she would like the Commissioners to note that the variance between current year to date purchase of power-new substation and the previous year to date purchase of power-new substation is \$350,000. She indicated that she recorded the 5% of the total substation bonds the MSC was permitted to charge for operating expenses and classified it as "Purchase of Power-New Substation".

She said in general, revenues were up and expenses were down for the year. She went on to say that the rate study amounted to \$25,000 which was classified as "Professional Fees" under "General and Administrative Expenses". She said while General and Administrative expenses are larger than the previous year they are less than budgeted. She said lastly she would note that contributions to the City increased \$50,000 because of monies the Commissioners promised to the City in 2010 to help defray cost overruns on the flood control project. She said Council is just now requesting payment and City Administrator Thomas said she sent a request in February 2012.

Commissioner Appleby said that the contribution to the City is then \$125,000 a quarter. Commissioner Knox added until June. Secretary Patterson said the MSC agreed to tie their contribution to a formula based on the proposed City budget. He said unless the agreement with Governor Markell freezes General Fund transfers to 2011/2012 budgeted levels. The Secretary said the agreement with the Governor would freeze that number for five years.

Commissioner Appleby asked the Secretary about the status of the Memorandum of Understanding with Governor Markell. Secretary Patterson said there has been no date set for the Governor and the Mayor's to meet. Commissioner Appleby said it was discussed at DEMEC if there is growth in the Municipal system the utility can increase its contribution accordingly.

The Comptroller told the Commissioners she would like to standardize charges for inspections for water and electric. She explained the billing practice as it stands currently and asked to bill for Supervisors at \$75 an hour and other employees at \$50 an hour. She said that she wants to bill for equipment for both water and electric. After questioning and discussion the Commissioners voted unanimously to follow the Comptroller's recommendation.

Comptroller Patone said she received information from PNC about e-billing charges and Commissioner Sippel has asked to hold off discussion until he can meet with the Secretary and Comptroller to discuss.

The Comptroller reviewed the capital budget with the Commissioners and went over each line item. After questioning the Secretary and Comptroller about particulars upon motion made the Commissioners adopted the capital budget.

Upon motion made and unanimous approval, the Commissioners accepted the financial report for the month of March and approved the payment of the March bills attached hereto.

SECRETARY'S REPORT

Secretary Patterson reported that DEMEC met April 17, 2012 in Smyrna. He told the Commissioners the renegotiated AMP deal for energy from the Freemont Plant resulted in an over-collection of 1.4 million dollars for March. He went on to say that the actual cost of energy was \$68.46 versus the billable rate of \$85.54. He said President McCullar reports the price of natural gas has fallen below \$2. The Secretary said Commissioner Appleby and he questioned the pricing of the Milford solar project which caused President McCullar to renegotiate the terms. He said DEMEC will pay \$155 for the Solar REC's for twenty years and the energy component will have a 2.5% escalator versus 4%. He continued and said that Commissioner Appleby questioned him on the AMP deal and what the cost to DEMEC would be for future power supply. The Secretary said he retrieved a document President McCullar had produced which says the AMP deal adds .37¢ per megawatt hour to the power cost.

The Secretary said in the Riverbend subdivision the building lots were sold at Sheriff sale on April 10, 2012 to Cecil Bank, a secured creditor, for 4.5 million dollars. The Secretary said he is not quite sure how this affects the bankruptcy or the lawsuit between Riverbend and the MSC. He went on to say that Signature Design Homes owns 4 lots which Joe Capano, Jr. is developing and his father is responsible to bring the utilities to. He said that Mr. Capano, Sr. was also suing Greenstone Engineering and its principal Bruce Jones, but he learned that the case was thrown out.

The Secretary said in Centerpoint Business Park Ultrachem applied to install a 185 kW solar array. The Secretary said they bid their Solar REC's in the state lottery and were picked to receive the subsidized renewable energy payments. The Secretary said in Riveredge Business Park EnerNoc, the CSP for Zenith, requested the MSC install pulse metering at Zenith on their behalf. The Secretary said the MSC will do this as soon as it receives payment.

The Secretary reported for Supervisor Blomquist in electric. Secretary Patterson said Supervisor Blomquist has been waiting to have the location of the area lighting identified so he can install them at the Penn Farm. He went on to say that Supervisor Blomquist wants to rent a trencher and do the conduit work at the Wilmington Road substation and the Penn Farm at the same time. The Secretary said the electric crew is having weekly safety training on the APPA safety manual. Secretary Patterson said Supervisor Blomquist is tracking and reporting to DEMEC the under billings for power supply. Comptroller Patone said she is accounting for the under billing and has made allowance for payment in her yearend report. Commissioner Appleby asked about power factor and whether Utility Engineers should be responsible for costs associated with making corrections. Secretary Patterson explained that power factor was not associated with substation design and was part of the loading on the different circuits and customer use.

The Secretary reported for Supervisor Guyer in water. He said the MSC will host 15 members of the American Public Works Association on a tour of its water facilities. He added that Erik Retzlaff of Davis, Bowen & Friedel arranged the tour. The Secretary said installing the door

and window security to the water facilities and connecting it to the SCADA system would be \$19,075. The Commissioners upon motion made and unanimous approval approved the installation. The Secretary spoke to the Commissioners about the Seeds of Greatness Church and their request to connect to Artesian's water system to save money. He said he contacted Joe DiNunzio of Artesian to discuss the costs and logistics and Joe will get back to him. The Secretary said that DNREC has the application for the Penn Farm back-up well. Supervisor Guyer has spoken with them about its purpose and it is now in DNREC's hands to issue the permit. The Secretary said Supervisors Guyer and Jaeger continue to work with DelDot on the Washington Street project, in particular logistics and timing. The Secretary said Commissioner Appleby and the Supervisors need to meet to discuss grading at the Utility Building. Supervisor Guyer reports that the first year inspection of the work on the million gallon water tank was conducted by MBA and that all went well with no problems being found. The Water Supervisors are working with the Comptroller on meter audits, the capital budget and the inventory audit. The Secretary told the Commissioners spring hydrant flushing was complete and one hydrant on Ferry Cut-Off needs to be fixed and moved. Water crews continue to take safety training and continuing education. They are currently being schooled in pipeline inspections and in a backflow administrator course. He said that completes the Water Report.

OLD BUSINESS

Secretary Patterson reported on the substation update progress. He said Supervisor Blomquist fabricated the new relay panels for the Wilmington Road substation. He continued by saying Supervisor Blomquist purchased the steel and used the city's plasma cutter to make the cut-outs and sent them out to be painted. He said the electric crew painted the roof on the Control House at Wilmington Road and completed work applying a sealant to the oil containment pit. He went on to say the replacement breaker was received and installed in the LTC control box at Dobbinsville. He said the MSC needs to install under frequency relays at Dobbinsville to comply with PJM interconnection rules and regulations. The Secretary concluded by telling the Commissioners the City is operating off the Dobbinsville Substation and that Wilmington Road is down ready to have the Control House updates installed.

The Secretary said the MSC Charter Changes had a hearing in front of the Senate Community/County Affairs Committee where there was no opposition. He said it will now be sent up to the Senate floor for a vote but he does not have a date.

The Secretary said the Comptroller, Commissioner Sippel and he were trying to get numbers from PNC Bank for e-check on line bill payments. He said PNC just got the numbers to them and they would be prepared next month to discuss.

NEW BUSINESS

The Secretary introduced a resolution to amend the Full Requirements Power Sales, Transmission, And Agency Services agreement between DEMEC and the Municipal Services Commission to accommodate the purchase of a portion its power supply from the AMP Fremont Energy Center. Upon motion made and seconded and unanimous approval the

Commissioners voted to approve the attached Resolution.

APRIL MEETING

The Commissioners set the date of the next monthly meeting to be May 24, 2012 at the office of the Commission, 216 Chestnut Street.

ADJOURNMENT

By motion made and unanimous approval, the Commissioners voted to adjourn.

Approved _____
Date

Francis L. Patterson, IV

MUNICIPAL SERVICES COMMISSION OF
THE CITY OF NEW CASTLE, DELAWARE

RESOLUTION

WHEREAS, the Municipal Services Commission of the City of New Castle, Delaware (the "Participating Member"), a separate agency of the City of New Castle, is a duly organized and validly existing political subdivision under the laws of the State of Delaware (the "State"); and

WHEREAS, The Delaware Municipal Electric Corporation ("DEMEC") is a municipal electric company incorporated in the State, established by certain cities and towns, and formed pursuant to Chapter 13 of Title 22 of the Delaware Code; and

WHEREAS, the Participating Member is a member of DEMEC, and by a resolution heretofore duly adopted by the Governing Board of the Participating Member, the Participating Member has duly authorized, executed and delivered the Agreement and Articles of Incorporation, dated as of July 9, 1979 forming DEMEC, and all amendments thereof and supplements thereto; and

WHEREAS, DEMEC and the Participating Member have entered into an Agreement Between The Delaware Municipal Electric Corporation and New Castle Municipal Services Commission For Full Requirements Power Sales, Transmission, And Agency Services dated October 15, 2003 (the "Full Requirements Agreement") whereby DEMEC has agreed to supply, and the Participating Member has agreed to receive and pay for, Full Requirements Service (as defined in the Full Requirements Agreement); and

WHEREAS, in order to supply a portion of such Full Requirements Service, DEMEC has entered into a Power Sales Contract dated as of June 15, 2011 between American Municipal Power, Inc. ("AMP") and 87 of its members, including DEMEC (the "AFEC PSC"), relating to the electric generating station known as the AMP Fremont Energy Center ("AFEC"); and

WHEREAS, under the AFEC PSC, DEMEC has acquired a share (an "AFEC Share") of the AMP Entitlement (as defined in the AFEC PSC), subject to change pursuant to the provisions of the AFEC PSC; and

WHEREAS, the Participating Member shall share in and assume shares of the rights and obligations associated with DEMEC's AFEC Share (the Participating Member's share being referred to herein as its "AFEC Power Entitlement Share"); and

WHEREAS, it is in the best interest of the Participating Member and DEMEC to enter into a Supplement to the Full Requirements Agreement (the "Supplement") to add certain provisions to the Full Requirements Agreement relating to the AFEC PSC.

NOW, THEREFORE BE IT RESOLVED by the Commission of the Participating Member as follows:

1. Authorization of Supplement to Full Requirements Agreement. The Participating Member hereby authorizes the execution of the Supplement, and authorizes and directs the President and the Secretary of the Participating Member to execute and deliver the Supplement on behalf of the Participating Member. The Supplement shall be substantially in the form presented to this meeting, which is hereby approved, subject to such changes and modifications as counsel may recommend and the President of the Participating Member may approve such approval to be conclusively evidenced by his or her execution thereof.

The Participating Member acknowledges that under the terms of the Supplement, the Participating Member is obligated to make payments (the "Payments") for its AFEC Power Entitlement Share irrespective of whether energy is produced or delivered to the Participating Member or whether AFEC is completed, operable or operating, and notwithstanding suspension, interruption, interference, reduction or curtailment of the output of AFEC, and shall not be subject to any reduction, whether by offset, counterclaim, or otherwise, and shall not be otherwise conditioned upon performance by DEMEC under the Full Requirements Agreement or any other agreement or instrument or the validity or enforceability of any other contract or any other agreement between DEMEC and any other Participating Member.

2. Authorization of Further Action. The Project Participant hereby authorizes the President and the Secretary to take all other action and sign any other documents or agreements necessary or appropriate in connection with the Supplement, the AFEC project or the public financing of the AFEC project, all as contemplated by this Resolution and the Supplement.

3. Effective Date. This Resolution shall go into effect immediately upon its adoption by the Commission.

Dated: _____, 2012

Supplement to Agreement Between The Delaware Municipal Electric Corporation And
City of New Castle Municipal Services Commission For Full Requirements Power Sales,
Transmission and Agency Services Dated October 13, 2011 (the "Agreement")

Supplement dated _____, 2011

The Delaware Municipal Electric Corporation ("DEMEC") and the Municipal Services Commission of the City of New Castle (the "Participating Member") hereby supplement the Agreement by adding the following:

Section 19. AFEC Power Mantled in Full Requirements Service; Power Entitlement Shares. DEMEC has entered into a Power Sales Contract dated as of June 15, 2011 between American Municipal Power, Inc. ("AMP") and 87 of its members, including DEMEC (the "AFEC PSC"), relating to the electric generating station known as the AMP Fremont Energy Center ("AFEC"), the term of which expires December 31, 2047, or earlier or later as specified in the AFEC PSC. A copy of the AFEC PSC is appended to this Agreement and incorporated herein as if fully set out herein. Under the AFEC PSC, DEMEC has acquired a share (an "AFEC Share") of the AMP Entitlement, subject to change pursuant to the provisions of the AFEC PSC. DEMEC entered into the AFEC PSC in order to obtain its AFEC Share to meet a portion of DEMEC's obligation to provide full requirements service to the Participating Members. For purposes of Section 4 of the Agreement, the AFEC PSC shall be considered a forward contract for capacity and energy.

19.1 Each Participating Member shall share in and assume shares of the rights and obligations associated with DEMEC's AFEC Share (their shares, "AFEC Power Entitlement Shares") in accordance with the following percentages:

Newark35.6%	Seaford	9 7%	Lewes	6.6%
Milford	17.9%	Smyrna.....	8.7%	Clayton...	1.4%
Middletown...	13.3%	New Castle ..	6.8%		

19.2 The obligations of each Participating Member to make the payments contemplated by Section 19.1 for its Power Entitlement Share shall:

(a) constitute an obligation of the Participating Member payable as an operating expense of the Participating Member's electric utility system from the revenues and other available funds of its electric utility system.

(b) in the ease of a default by another Participating Member, be subject to increase, on a pro rata basis (based on the relative AFEC Power Entitlement Shares of the non-defaulting Participating Members), in an amount not in excess of a cumulative amount of up to 125% of its AFEC Power Entitlement Share ("step-up"). For thirty (30) days following a default and prior to implementing a step-up, DEMEC shall, with respect to the defaulting Participating Member's AFEC Power Entitlement Share follow the procedures set forth in Section 9(a) and (b) in the case of Full Requirements Service.

(c) be an obligation hereunder irrespective of whether energy is produced or delivered to the Participating Member or whether AFEC is completed, operable or operating, and notwithstanding suspension, interruption, interference, reduction or curtailment of the output of AFEC, and shall not be subject to any reduction, whether by offset, counterclaim, or otherwise, and shall not be otherwise conditioned upon performance by DEMEC under this or any other agreement or instrument or the validity or enforceability of the AFEC PSC or any other full requirements agreement, or any other agreement between DEMEC and any other Participating Member.

19.3 The Participating Member agrees to comply with any applicable requirements under the AFEC PSC, including the tax requirements contained in such agreement to allow AFEC to be eligible for tax-exempt financing and to maintain the tax-exemption on any tax-exempt debt issued for AFEC, and shall provide such information and certifications as reasonably requested by DEMEC relating to such requirements.

19.4 The Agreement as supplemented by this Section 19 shall remain in full force and effect. The Participating Member hereby ratifies the execution and delivery of a substantially similar Agreement with the City of Lewes. All references to "seven" Participating Members in the Agreement shall be deleted and replaced with "eight" Participating Members and all references to the Participating Members shall be deemed to include the City of Lewes.

19.5 This Section 19 of this Agreement shall take effect upon the last to occur of the authorization and execution hereof by all eight of the Participating Members and DEMEC, which date shall be noted at the end of this Section 19.

As provided in Section 19.5, the effective date of this Section 19 is _____
2012.

THE DELAWARE MUNICIPAL
ELECTRIC CORPORATION

MUNICIPAL SERVICES COMMISSION
OF THE CITY OF NEW CASTLE

