

Municipal Services Commission
Monthly Meeting
January 31, 2017, 4 p.m.
216 Chestnut Street
New Castle, Delaware

The meeting was called to order at 4:00 p.m. with Dr. Roy Sippel, Commissioner, presiding.

Present: Dr. Roy J. Sippel, Commissioner, President
Daniel F. Knox, Commissioner
Hickman Rowland, Commissioner
Pamela A. Patone, Secretary

Staff in Attendance: Scott Blomquist, Supervisor, Electric Department; Jay Guyer, Supervisor, Water Department; Mary Jane Stubbs, Business Manager/Treasurer; Tara French, Customer Service Manager

Scott Lynch of DEMEC presented a program detailing their efforts in conjunction with the State of Delaware's efforts to improve energy efficiency through programs and activities that are utility sponsored throughout the state. The State's Energy Efficiency Advisory Council has been meeting for over a year now to try and implement energy efficiency programs. The effort attempts to help customers to find efficiencies in lighting, pumps, and homes through energy savings that would help mitigate electric bills and provides a benefit to the utility. DEMEC has a partnership with American Municipal Power (AMP) who provides similar joint action agency services as DEMEC. The Municipal Services Commission (MSC) of the City of New Castle is a member of DEMEC.

Mr. Lynch explained that the program being displayed tonight would be managed by AMP. DEMEC would act as the agent directing AMP and MSC would be the agent directing DEMEC on how we want to see our program designed. Joining the meeting by phone was Randy Corbin of AMP and Dave Cawley of the Vermont Energy Investment Corporation (VEIC), implementation contractor that does the work to bring energy savings to customers.

Mr. Corbin talked about Efficiency Smart, a branded AMP Energy Efficiency Program administered by VEIC. The program began in 2010. Mr. Corbin gave an overview that included the benefits to municipalities and its customers, program flexibility and options available to communities. He touched on their experiences since 2010. He said a key feature is the performance guarantee they provide for performance-based services. Also included in the overview is the proposal presented to the DEMEC Board, the roles of various participants (DEMEC, AMP, VEIC and the municipality), and the benefits and costs to MSC.

Mr. Corbin commented that several models were considered. He said the model selected is 'one product at one price' for the first six years. Items included are financial incentives, engineering services, account management, community engagement, marketing and promotions, customer service, and performance tracking. An independent third party evaluates measures and verifies claim savings on a yearly basis to assure customers that they received what they paid for and the performance guarantee was met.

Key benefits for municipalities – Mr. Corbin said that municipalities can upgrade facilities. Currently a popular project is LED streetlight conversion. Energy savings benefit the whole community.

Benefits to economic development – Mr. Corbin said that communities use the program as a business retention tool. Reducing energy costs helps operating costs and makes businesses more competitive. The program supports local businesses by offering various initiatives. An example is a lighting markdown initiative where local retailers are targeted to receive LED bulbs at a reduced cost. Local

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contractors are involved in terms of evaluating their proposals so they can provide incentives to customers making their offers more attractive.

In the long run Mr. Corbin said the Efficiency Smart program is cheaper than a new power supply. The cost for this project for the principals involved is around \$30 per MWh, which is much cheaper than the cost of a new power supply. He said another benefit in the PJM market is it reduces transmission charges that could lead to deferrals for upgrades.

Mr. Cawley stated they are trying to overcome the barriers to energy efficiency that is often considered as the first costs. Efficient equipment typically has a higher cost than standard operating equipment and their use of rebates and financial discounts are designed to make the decision easier for the customer.

Technical assistance – Mr. Cawley said they have a staff of engineers who work with large customers to determine the best opportunities to maximize energy efficiency. Additionally, engineering assistance is used for reviewing proposals, checking vendors, checking calculations on savings and additional opportunities for efficiency.

Account Management Services – In addition to larger businesses, Mr. Cawley said they also work daily with small and medium sized businesses. These services are also extended to the community. They work with MSC staff to make sure they are aware of campaigns taking place and they have input about promotions being offered. They offer lunch-and-learn events and speaking events to educate the public on their opportunities for energy efficiency. They also coordinate with the respective community's events.

Customer Call Center – They maintain a toll-free number for customers to call to get advice, answer questions and provide referral.

According to Mr. Cawley, they customize their approach to the community. They establish a 'target' for each community to save energy within that target they have flexibility on how to achieve that target.

Mr. Corbin talked about their performance with two existing contracts. They met the targets established for each of the communities and achieved 150% of the aggregate of the three-year target in both contracts. The evaluation measurement and verification feature meets all national standards and qualifies for the PJM auction. They measured very high realization (ratio of actual vs. claim savings) rates, 94% to 101%. Most programs are in the 50% to 70% realization range.

Performance-based Proposal -- Mr. Corbin stated they will set a target and then guarantee to achieve 70% of the savings target or they will refund the difference. They are confident they will achieve the target.

Mr. Corbin noted that new services are continually being developed. They are working on a number of new initiatives. Additionally, they will help leverage any Delaware state programs for DEMEC members and their constituents.

Mr. Corbin said they were asked to present two options (one with the City of Dover and one without the City of Dover) by the DEMEC Board for consideration. The basic performance option being proposed is designed to achieve a quarter percent of annual energy savings for DEMEC participants. For DEMEC as a whole there are several items of note: annual MWh savings, with and without the City of Dover, the

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lifetime savings, the avoided energy costs, the three-year cost to communities, and the benefit to cost ratio.

Mr. Corbin reviewed the prospectus. It is a three-year contract, is a basic proposal, and is performance based with the aforementioned guarantee.

Mr. Lynch said the DEMEC Board also wanted AMP to present a prospectus. The numbers presented tonight are subject to change based on the design that you choose.

Mr. Knox asked for a definition of 'lifetime' savings. Mr. Cawley said that average lifetime is about 12 years. He added that commercial measures can go as far out as 17 years.

Ms. Patone talked about the state requirement for Delmarva to obtain energy efficiency. Mr. Lynch said there is a section of the State Code that says that municipalities may elect to develop a program. This gives municipalities the flexibility to ensure how they would like to bring energy efficiency to their customers. He reported that the state has targets they are going towards. When we examined the programs we looked for something that would bring guaranteed energy savings.

Ms. Patone said that AMP presented to the DEMEC Board previously and was questioned about ensuring there were performance indicators met for each community and not focusing just on larger communities. AMP did ensure performance indicators would be available for all communities. Ms. Patone noted that the MSC has discussed residential homes that are older and energy audits that our community might benefit from. Additionally, she said the MSC has discussed the three large commercial parks that house companies that MSC would like to retain and keep filled. Some of the programs provided by the Efficiency Smart program could potentially benefit us in retaining those businesses. Ms. Patone and Mr. Blomquist have met over the last few months with several of the MSC's large commercial accounts in an effort to develop a key accounts program and do some of the things identified in tonight's presentation. The DEMEC Board did not accept the proposal in January and Ms. Patone is aware that some organizations are engaging with energy consultants performing similar functions. If the DEMEC Board moves forward with this proposal in June, Secretary Patone asked how would the MSC would navigate this with AMP.

Mr. Cawley said they work with consultants hired by businesses routinely and he does not consider it to be a problem. He added that as soon as the agreement is arranged AMP would begin to pay incentives, but the improvements cannot be made in advance of an agreement to operate the program. Mr. Corbin added that even if energy consultants are hired they will often recommend a course of action that provides them with the most profit, but may not be the best option for their customers. AMP points out the best options to customers. AMP is a nonprofit and represents the customers.

Ms. Patone asked if the technical assistance (engineers) is fee based or if it is included in the program. Mr. Corbin said it is included in the program fee. Mr. Cawley said their engineering is involved at a higher level of making recommendations and cost effectiveness and savings calculations, but they do not do design work. Consultants would be employed for lighting systems, HVAC systems and the like. Mr. Cawley informed there is a distinction between the analysis they do and advice they provide versus the actual engineering required to do a project. *(Messrs. Corbin and Cawley excused themselves from the meeting.)*

Mr. Lynch was thanked for organizing tonight's presentation. He again emphasized the benefits of customer retention and the economic development tool is the top benefit of the program. Having energy savings included makes the program better. He reported the City of New Castle is the first community to have this presentation. Other communities have scheduled over the next several weeks. Ms. Patone was encouraged that other communities will be hearing the presentation. She anticipates the DEMEC Board to take a vote by June. Mr. Lynch assured they would be ready to begin the program at the pleasure of DEMEC's Board. He said the City of Dover is the largest community and they do not need to be part of the program to make it go forward. If we agree to a program now they can join later.

(Mr. Lynch left the meeting.)

Minutes – A motion was made and seconded to approve the minutes of the 12/20/16 monthly meeting as distributed. The motion was seconded and approved.

A motion was made to approve the 12/20/16 executive session minutes as distributed. The motion was seconded and approved.

Mr. Knox asked Treasurer Stubbs for an update on the review of a conflict of interest/nepotism policy. She informed that she has prepared a form that she will review with Secretary Patone. Secretary Patone said we have a code of ethics that acts as our conflict of interest policy. All personnel signed the document upon hiring and/or when the policy was established. She said that DEMEC provides an opportunity each year for its employees and board members to update any potential conflicts of interest for the Board to review. The idea of whether or not we should establish a similar policy was raised noting that employees could be involved in things after hire that they may not realize need to be communicated to management. The policy we are considering putting forth for adoption will be simple and patterned after DEMEC's policy. Secretary Patone will review the documents. She added that any concerns would be brought to the Commissioners' attention.

Referencing the meeting minutes for the 12/20/16 meeting, Mr. Knox expressed his surprise with the number of complaints being received about the bills. Ms. French said as they have gone through the new software forms they have significantly cut down on wording on disconnect letters. Secretary Patone added the bills are very efficient. She added that part of the reason the utility bills became so 'wordy' was because over time we tried to address all questions or concerns as it pertained to disconnect notices. The new software being implemented has boilerplate terminology that serves the same purpose while being more concise.

Treasurer's Report – Treasurer Stubbs reporting

Treasurer Stubbs reported a total operating cash balance of \$2,560,591.26. PNC escrow and meter deposit total in the amount of \$804,010.89. Total cash balance is \$3,364,602.15. Total investments are \$1,063,072.64. Treasurer Stubbs reported the bank statements were reviewed by Assistant Water Supervisor Ryan Jaeger. Mr. Jaeger's questions were satisfactorily answered by Treasurer Stubbs. The checkbook register is attached to her report.

Treasurer Stubbs reported sending out 13 1099 Miscellaneous forms this year. A question was asked about the HACH Company. She informed that we buy chemicals from them for the wells.

A motion was made and seconded to approve the disbursements as presented. Motion approved.

Customer Service Report – Ms. French said they are actively making corrections to the current system in preparation for transition to the new software. She has been working with Mr. Blomquist to correct errors that were discovered through audits and accumulation of information that Mr. Blomquist obtained while researching answers for an AMI (smart meter) survey being prepared for AMP. We have over billed the customer at 730 Ferry Cutoff (Portofino's) and Standard Distributing and we have under billed the New Castle Little League. Meetings are scheduled with Standard Distributing and the Little League to review the bills and make them aware of the errors. Dr. Sippel asked how we would reimburse the previous owner of Portofino's. To date, Secretary Patone said they have not been successful in reaching the current owner to schedule a meeting. We plan to reach out to the former owner after meeting with the current owner. Dr. Sippel recommends consulting with legal counsel before speaking with the former owner. Secretary Patone advised the MSC tariff indicates if it can be determined when an error occurred the correction should be made back to the error date; if it is undeterminable the correction should be three years. Portofino's was overbilled for 10 years, about \$140,000. She said the MSC can determine the date the error occurred through electronic meter data, and can confirm the account owner which was overbilled. Secretary Patone noted the type of purchase agreement between the previous owner and current owner would not be known by the MSC. She acknowledged and understood Dr. Sippel's concerns and advised she would seek legal advice from Dan McCollom. She reported the New Castle Little League was under billed about \$17,000 over a span of 10 years. Standard Distributing was overbilled \$19,000 dating back to May 2016.

Ms. French reported they are currently underway with the billing audit. Mr. Blomquist has provided her with information necessary to do her review.

Water meter survey – The Water Department does a survey every three years. We will be reviewing the data and looking into what changes need to be made. They hope to have any changes done in time to be reflected on the new software.

Personnel – The Customer Service Department has hired a Customer Service Representative I. The new employee will begin on 2/13/17.

Electric Department Report – Mr. Blomquist reporting.
(See attached report.)

Water Department – Mr. Guyer reporting.
(See attached report.)

Dr. Sippel complimented a Water Department employee on the job he did recently while taking water meter readings on East Second Street.

Results from PFC testing done at end of November 2016 – Mr. Guyer reported that everything looks good. As of now we have consumed about 75% of the carbon in vessel one. The next testing will be around June 2017. He expects the carbon in vessel one to be almost consumed by that time. We would then need to look at when to do a change out. The carbon is the original carbon put in the temporary system and was slurried over. In the slurry process it was mixed up and may not be a true indicator of how long the carbon lasts.

Secretary Patone clarified that the capital budget was approved at the last meeting. It was not removed from the agenda. The carbon replacement was not in the capital budget that was approved and is not reflected in the current operating budget. She asked if it is Mr. Guyer's expectation that replacement of

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carbon would not be needed until next fiscal year. Mr. Guyer said it may be next fiscal year but could be needed this fiscal year based on the next sample readings. He explained that when they slurried over the carbon from the temporary vessel they had no idea how the carbon was consumed or how it settled in vessel 1. Their samples could have been through good quality carbon that had not yet been absorbed. However, they are now getting into carbon that has been absorbed. They will be reevaluated in the next six months. There has been no break through to the second vessel at this time. Secretary Patone noted that if replacement has to be done this fiscal year it would not be until the third or fourth quarter of this fiscal year. She would anticipate coming to the MSC with a capital budget item at that time.

Mr. Guyer estimates the cost to be about \$35,000 for 20,000 pounds of virgin carbon. There are options for regenerating the carbon, but there are mixed results on its expected life after the fact. He would need to do more research on the regeneration process. Calgon Carbon would install the carbon.

Nixon Water Consumption Cutback – Mr. Rowland asked for information on Nixon's water consumption cutback. Mr. Guyer does not know the exact numbers. He believes the reason for the cutback was that Nixon operated multiple facilities in several states. Mr. Guyer said that Nixon builds a facility up and when it reaches a certain capacity they shed it off to another facility. Secretary Patone said that Nixon is down about 42% of their usage, about 6 million gallons per year. She said Nixon anticipates they will grow again in about three years.

(With no further business to discuss, Ms. French, Ms. Stubbs, Messrs. Blomquist and Guyer were thanked and left the meeting.)

Financial Report Executive Summary – Secretary Patone reporting.

(For the period ending 12/31/16)

Trisha Malloy, accountant, prepared financial reports for the period ending 12/31/16. Total assets of \$16,441,574; an increase in cash of \$116,216 over the previous month.

Revenues and Expense Report -- As of 12/31/17 we had \$229,000 surplus of net assets; \$22,000 from water and \$207,000 from electric. Comparing the budget versus actual operations for the third quarter user charges are up from what was budgeted by 4.2% in electric revenues. Water is down 7% due to the water cutback just noted with Nixon. Expenses are on target; staff are analyzing their expenses and are asked to alert Secretary Patone to any issues that arise. Operating income is \$175,000 higher than what was budgeted. Comparing previous years we are in alignment with revenues for electric and down for water. The budget versus actual for the capital budget for the nine-month period ending 12/31/16 was provided. Capital budgets have been coming in under budget and should be complete by the end of the fiscal year. We have made sure we have a contingency in all of our budget planning.

Operating and G&A salary expenses are down because of the Water Operator and Customer Service Representative positions being vacant for a period of time.

Secretary's Report – Secretary Patone reporting.

DEMEC – Secretary Patone attended the DEMEC meeting on 1/17/17. Financial reports were approved as presented. Eric Norenberg, Milford City Manager, was appointed to the executive committee, replacing Dave Hugg, Smyrna Town Manager. Carol Houck, Newark City Manager, was appointed chair

of the executive committee and Darrin Gordon, Lewes Public Works General Manager, was nominated and appointed vice chair, replacing Dave Hugg. The University of Delaware DEMEC graduate fellowship recipient presentation was not presented and may be rescheduled.

Generation Projects – Secretary Patone said they discussed that solar production had not changed much during the year from what had been previously reported. Wind production was low; no issues with repairs on wind farms-just lower wind production. The DEMEC Board requested that going forward the staff should prepare a report on the wind showing wind trend patterns, comparison from year to year, and possibly do a five-year average in graph format.

Beasley Units – Secretary Patone noted gas is not readily available in the winter; DEMEC does not have locked-in contracts. The Beasley units are bid in on oil and it is not always economical. The units have not been called to run recently. They are run periodically for testing purposes.

Fremont Generator Issue – AMP had an issue with their unit. It is now up and running. The unit was down the month of November and part of December, but the financial impact was not significant because the demand was low in those months.

DEMEC staff updated the Board on construction projects:

- Middletown substation and transmission 138 KV line – They are still working on right of way's with Delmarva Power. They are working with five homeowners to secure easements for access.
- Seaford's second electric delivery point has been approved in concept. They are going out for requests for proposals; therefore, there are no figures on costs.
- Smyrna's solar project is expected to be done in 2017.

Economic development projects:

- Middletown Technology Center and the Milford Bayhealth Hospital are likely to move forward in 2017.

Legislative Report – Max Walton, Esq., DEMEC counsel, provided net metering language in preparation for approaching the Legislature with some changes in the net metering law. The DEMEC Board continues to review the language. Some of the municipalities were interested in having the ability to grandfather in the current legislation and let their customers that may already have solar to remain under the former legislation and utilize the new legislation for new customers. The MSC may want to address the issue should the legislation pass.

DEMEC Green Energy Programs – It was discussed that the AMP would present to all member councils so they can take into consideration what the program offers and make a decision.

North American Electric Reliability Council (NERC) Presentation -- Secretary Patone said the NERC presentation was very informative. It was communicated that because of the Beasley Units generation, DEMEC meets the criteria to register with NERC. They meet the criteria in three areas: they are a generation owner, they are a generation operator, and they are a distribution provider. She said that some municipalities may have more responsibility than the MSC because some members own generation; the MSC is a distribution provider. One determination as to whether you must register is tied to the effect on the bulk electric system (BES) if your system went down and your relays did not respond appropriately, how would that affect the BES. Secretary Patone said the message of the presentation was to alert the DEMEC Board of all responsibilities that DEMEC has with

compliance and reporting and to alert the operations group and the administration of the municipalities that they will be calling on us to provide information regarding our systems.

OLD BUSINESS

Riverbend/Parkway Gravel – Secretary Patone reported that Parkway Gravel had concerns regarding not being responsible for electric and water infrastructure for more than their 34 lots. A change was made to the verbiage and provided to them. They reached out to Secretary Patone today expressing their appreciation for the change in wording. They still have some questions to work through regarding getting cable and/or phone into the development. It was noted the cable and phone are the developer's responsibility to develop the plans and the MSC will review the plans. The MSC is requesting an exclusive easement in this agreement. Secretary Patone has advised Parkway Gravel to go to Verizon or Comcast and put together a plan that shows where they want the cable and telephone services and the MSC will review the plans and determine whether they meet the electric and water separation requirements. There are no documents to review at this time.

Free Service/Nonprofit Update – Secretary Patone informed she is working with the Trustees to identify their easements. She was copied on an email from Mike Marinelli to the Trustees' attorney asking him to provide MSC with a listing of all existing easements.

Delaware Street Pier – Secretary Patone has prepared a letter for the president's signature based on discussions with the City. The same language is contained in previous agreements, but we are putting it in the form of a letter from Dr. Sippel to City Administrator Bill Barthel. Once the letter is reviewed by commissioners and signed by Dr. Sippel, Secretary Patone will forward it to the City.

NEW BUSINESS

Trustees Request in Bicentennial Park -- Mr. Guyer met with several Trustees onsite. They are requesting more water accessibility in Bicentennial Park. Mr. Guyer addressed any concerns about cost to Secretary Patone. Trustee President Henry Gambacorta submitted a request for assistance with costs associated with installation of a meter pit and yard hydrant and indicated he appreciated the MSC's consideration. Mr. Guyer has prepared an estimate. Secretary Patone reminded Commissioners that MSC gave Messrs. Blomquist and Guyer and Secretary Patone the ability to contribute labor to the City and the Trustees for their projects that relate to their respective activity. In the recent past we have been charging for materials. She recommends we continue to do so. We do not make any profit. They receive the materials at our cost. We do not charge for any equipment costs either. The material cost estimate is \$474 and would be the Trustees' responsibility.

A motion was made giving approval for Secretary Patone to continue with the method of contributing labor and that any material costs be borne by the Trustees. The motion was seconded and approved by unanimous vote.

Operating Budget Assumptions – Secretary Patone said the budget is a zero-based budget. She reconciles numbers provided by Messrs. Blomquist and Guyer. She speaks with our insurance broker, the State of Delaware to get health insurance estimates, and she does a lot of analysis on consumption over the past year. Nixon is down 4% which is reflected in our revenues this year. Although Nixon anticipates growing in the coming years she did not reflect any growth. She said we do not expect any growth in electric, nor does DEMEC. She is reporting a flat line for electric revenue. Secretary Patone informed that electric expenses are reduced by 5.21% resulting from the DEMEC rate going down. The budget reflects this reduction. She is suggesting we decrease electric rates overall by 2% (\$150,000) and

reflect it as a PPA 2% reduction. She reported the Delaware Electric Cooperative has just made an announcement of a reduction that is about the same as the DEMEC reduction.

She would use the wording "overall electric rates will be reduced 2%" when informing residents of the rate reduction. The wording is similar to the Delaware Electric Cooperative announcement. Secretary Patone will provide samples of verbiage and examples of how the reduction affects residents to Commissioners. She is looking at putting the reduction in place on 4/1/17 to coincide with the new budget. Wages are per the labor agreement with the union.

In executive session Secretary Patone wants to discuss the personnel budget and follow up on some items left open at the last meeting.

Pension expense – Commissioners have already approved the additional \$50,000 for the next fiscal year. She has added it to the operating budget. Health insurance expense – we are using 7% based on discussions with the State. Workers Compensation and Property Insurance – we are estimating 5% based on discussions with our broker. The appropriation number will change. The number shown is based on SALY, the same as last year because she only has 9 months of user charges. We don't approve the final operating budget until March at which time she will have 11 months of user charges to reflect. The City pays for their wholesale rate of electric. Nonprofits will be affected the last quarter of this fiscal year when they will begin paying for their revenue. Secretary Patone detailed some of the Water Department's expenses to illustrate why expenses are increasing by 5.4%. The Electric Department's expenses reflect a 1.2% budget increase.

A motion was made and seconded to go into executive session at 6 p.m.

Regular session was reconvened at 6:18 p.m.

A motion was made to accept the personnel adjustments presented in executive session. The motion was seconded and approved by unanimous vote.

Well Ordinance Revisions – The revisions are for Commissioners' review and comment only at this time. As a result of the revisions our tariff will need some adjustments. Mr. Guyer provided some additional research information. She will continue working with Mr. Guyer to fine tune the revisions and schedule a meeting with City Council President Linda Ratchford and City Administrator Bill Barthel.

New Business

Drinking Water Innovation and Technology Grant – The \$50,000 grant we received is for the Dobbinsville Pipeline Rehabilitation Project. Last year we received a grant for the Echologics testing. Secretary Patone signed that agreement. The USDA grant requires the president's signature as opposed to the secretary signing. This edict prompted a discussion about appropriate steps for signatory protocol. Secretary Patone concluded the president should sign the documentation and the secretary could witness if necessary. The Commissioners have already approved the capital budget reflecting the grant.

A motion was made to approve acceptance of the grant. The motion was seconded and approved by unanimous vote. (Approval of the motion gives the president the power to sign the agreement.) Dr. Sippel then signed the agreement.

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Next Meeting

Commissioners set the next monthly Board meeting to be 2/23/17, 4 p.m., at the office of the Commission, 216 Chestnut Street, New Castle, Delaware.

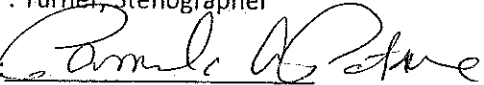
ADJOURNMENT

A motion was made and seconded to adjourn the meeting. The motion received unanimous approval. The meeting adjourned at 6:26 p.m.



Deborah P. Turner, Stenographer

Approved:


(Minutes transcribed from recording.)