

Municipal Services Commission
Special Meeting
January 29, 2018, 4:00 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
Dr. Allen Hansen, Commissioner
Pamela A. Patone, Secretary

The purpose of the special meeting is to discuss the results of the electric and water rate study. At the 1/18/18 Board meeting consultants from Utility Financial Solutions gave their report. Since that meeting commissioners have reviewed the report and have asked questions. Secretary Patone spoke about follow ups to some of the questions asked.

Additional change – Secretary Patone informed of an additional change to the report. MSC's electric substation in Dobbinsville was built with a bond held at DEMEC. That bond had a balloon payment of \$2.8 million that would be due in 2020. In 2015 we addressed refunding it since we had not been putting money away. We now have a \$587,000 balloon payment due in 2022. Results on the electric survey reflect the old information. We believe it would slightly increase the rate reduction in electric.

Secretary Patone has followed up with the consultants about MSC's fee schedule. There are fees in our tariff for temporary water attachments and other fees within our rate structure that she plans to give to commissioners at a later date.

Mr. Sippel is looking for commissioner input and direction to the changing of rates and how it will be handled. In addition, how best to communicate changes to the public. Our practice was to take a change in the rate then wait a couple of periods. Mr. Sippel suggested we should think about the best way to handle rate changes.

Secretary Patone reminded that commissioners voted for a \$2.7 million cash reserve that was anticipated to be a minimum cash balance that could be revisited. The consultants' presentation is the first time they showed minimum and maximum cash reserves. She said this would be a good time to reaffirm the \$2.7 million and learn what the commissioners' thoughts are on this. Often times we have gotten a 3-year recommendation on a rate increase/decrease. What has been determined over the last six years is the Commission has voted to approve a one-year rate change; we do not adopt a three-year rate change. The consultants would prefer we adopt the three years at one time. Secretary Patone said that potentially we would need to go back to the consultants annually and have them design the change for us. In the past commissioners have internally talked every year to address what needed to be addressed. This past year we adopted a negative PPA and passed that along to customers. She has not approached commissioners about recommending the consultants' study. The consultants tell us that because we did not follow their recommendation to adopt a three-year rate change that is why we are now looking at a large cash deficit for the water. Secretary Patone asked commissioners if they want to address the minimum cash balance and adopt one year at a time or three years at a time.

Mr. Hansen said that yearly rate of adjustments are necessary in order to get back on track. He asked when the last rate change was done. Secretary Patone said the rates were changed three years ago, 9% for water and 2% for electric. Further, she said it was an attempt to bring water into a better monetary

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position. Six years ago we did a 30% water increase, but it was a long time in coming. Water bills are less than electric bills. Residential customers do not experience large water bills; our commercial customers require more attention.

Mr. Sippel noted the volatility of the electric and water because of our large investment in the facilities like the treatment system, the underground relining, and the upcoming aggressive plan involving electric in Vandyke Village. He thinks we should regularly examine our financials with an eye toward changes. When we have something like a filtration system should we consider a rate change then as opposed to waiting a year to have a rate structure. Perhaps we should be proactive concerning rate changes. We could make rate changes more than once per year; we need to look at what is appropriate for the time and the community. Secretary Patone reminded commissioners that we look at our financials regularly.

Mr. Knox asked if the Commission is comfortable with the electric business subsidizing the water business.

Mr. Hansen said a bigger issue is where we want to be with cost of service, below or right on, or our priority with getting costs in balance. Bringing the revenue up to cost of service is going to exceed our maximum. He believes we are going to have to live with revenues being below our cost of service. Our cost of service for most categories is below revenues. Our challenge is how or if we are going to rebalance the cost of service between categories so they are more fair and reflective of use of each.

Secretary Patone informed Mr. Hansen that that is what the rate design does. The Commission gives the consultant direction for a rate design. As an example, a 2% bandwidth either way so the end result for all electric revenues comes down 3%, but for residential it might be 1% and for commercial it might be 2%.

Commissioners discussed a path forward.

Mr. Hansen thinks we should revisit our rate structure each year. We need to indicate we have a fair rate structure and are putting forth an effort to be fair.

Mr. Sippel said we need to agree on what emphasis we put on our large accounts. We want to have a program that attracts customers and have them stay. He believes there is room for tweaking with special programs for large accounts. In his opinion the Commission needs to think about how much focus we want to put on certain clients.

Secretary Patone stated there are customers who are only served with water or electric (special class) and we need to be mindful to subsidizing one class when they are not getting the benefits of that service.

Mr. Sippel asked if we ever want to have equity between the two and how long do we perceive water dragging its own weight or is it even appropriate to do that. Secretary Patone said some of the previous thought process was we did not want to hit our customers with a change each year unless it was necessary. The Commission reviewed rates annually when the annual budgets are prepared. The income statements show that water is not incurring a net income deficit, however, with the capital items there is a negative cash balance. She said departmentalized balance sheets have not been done as part of the financial statements, but she is tracking the departmentalized cash balances. Because of the

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filtration system, water was about \$250,000 negative cash. If we get reimbursed the \$700,000 we would not be in the hole for water. We know we are off within the different categories, including electric residential versus commercial. With electric we have seen a reduction in the cost to serve because a large portion of our electric costs is with purchased power. She reported that costs are only going to go up with water. We are not purchasing our commodity; it is all fixed cost. We need to actively address water charges.

Mr. Hansen agrees to get the water to where it is meeting its target income on a given year, but we are still trying to make up a large expenditure (\$1.2 million) from before. At a minimum do we address the \$1.2 million expenditure, but get to where our target income is being attained. Where to make up the past deficit is a subject for conversation.

Mr. Knox thinks that most customers can absorb a double-digit increase in water, especially when there is a corresponding decrease in electric rates. Our water rates are significantly less on the residential side than other service providers. He would like to advertise our rates versus Artesian, Tidewater and Suez. Secretary Patone can put together some numbers for Artesian, Tidewater and Suez. However, she reminded that MSC is on the high end when compared with other municipalities because they allow their electric to subsidize -- electric supports the other services. Larger municipalities are doing cost of service and she believes we are going in the right direction. We need to condition our customers to anticipate addressing increases and anticipate revisiting the issue each year.

Mr. Sippel asked how much feedback MSC would get from residents concerning an increase in their bill. As it pertains to increases in bills, Secretary Patone said the bulk of their calls come from residents. For commercial accounts she will speak with financial and upper management personnel about increases. Secretary Patone informed that Customer Service Representatives have been trained on the best way to handle residential calls. Secretary Patone is not overly concerned with an increase in water charges. The proposed increase of \$2 in electric was a surprise, but she said that is the direction we need to follow.

Mr. Hansen said we need to understand we will be cash flush at the end of five years and it is alright for the revenue to be low relative to cost of service. We have to give our customers that cash back or not take it in the first place. He suggested raising \$1-\$2 this year and perhaps make no rate change the next three years.

Secretary Patone said when looking at commercial water rate there is a tier for residential usage that is 4,000 gallons in the summer months and when you exceed that usage the rate increases for residential. For commercial usage it is significant, 170,000 per day. There could be some kind of change in tiers for commercial to help address the water rate and/or the water per gallon to differentiate between residential and commercial, if appropriate.

Mr. Sippel spoke about how the water group is charged for electric. The Water Department believes a lot of the improvements in energy is a result of improved pumps. Secretary Patone said they are charged in their departments at the wholesale rate (DEMEC rate) rather than fair market value. Mr. Sippel asked how giving them a rate below what we pay would impact the financials. Secretary Patone is not comfortable with doing this from an accounting perspective and is unsure it could be done.

Mr. Sippel asked what we need to communicate to Mark Beauchamp (consultant) to look at the rate structure. Secretary Patone responded that we need to let them know if we are comfortable with the percentages they recommended and, if not, what percentages we would be comfortable with. Then we

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need to provide them with a bandwidth to allow them to design the rates. The bandwidth would be if we are reducing electric by 3% and give them a 2% bandwidth that might mean that residential customers would only get a 1% overall reduction and commercial customers would receive 5%. The consultants did not give us the details for the customer charges in the larger size water services and commercial accounts. They may make changes or recommendations for those accounts, but they detail residential because that is where the conversation will take place.

Secretary Patone noted the residential electric customer charge is \$10 at this time and is going to \$12; it will be felt by residents. Mr. Hanson would like to spread out the monthly customer charge increases rather than doing it all at once. Secretary Patone reminded we have been passing along a percentage reduction with the PPA this past year. She favors getting the water down to 9%.

Secretary Patone asked what commissioners think about having a full cost of serve done in three years versus five years. Enough change occurs in a three-year period to warrant a whole cost of serve. Mr. Hansen suggested we could do a cost of serve every year. Discussion turned to costs involved with a rate design versus the Commission deciding what the rate would be in the last two years. Secretary Patone favors 9% for three years.

Secretary Patone said commissioners can give the consultants more direction or let them design the rate design. Commissioners would then review their recommendations, approve or reject them. She invited Mr. Hansen to be a part of a phone conversation to discuss if he prefers. Mr. Hansen thinks some things are misleading saying some document lack interpretation. He is happy with their conclusions for rate change recommendations, saying they are reasonable, but thinks they could be tweaked. He would have liked more clarity on customer and monthly charges for water rather than lumping them together.

Mr. Sippel suggested asking Mr. Beauchamp for an estimate of his charges if we were to do a cost of serve every year. Secretary Patone will speak with him.

Cash reserves – Secretary Patone asked if we want to revisit the \$2.7 million or remain with it. She stated this is something that is monitored in house and she would alert commissioners to any issues. She explained they established the \$2.7 million six years ago; it was a minimum recommendation. It was formally adopted in our minutes. The cash reserve number the consultants showed her this year was higher than the \$2.7 million. She explained the \$2.7 million is a target and we do not want to increase the amount. The consultants think we should show a minimum and maximum. Secretary Patone recommends we stay with \$2.7 million and give them more direction next year when establishing the report.

Percentage recommendation for electric and water – Secretary Patone suggested 9% for water next year with a 2% bandwidth; future reports should reflect 9% for 3 years and 5% for the remaining two years plus any other customer changes. Electric – go with their recommendation of a 3% decrease with a 2% bandwidth. Secretary Patone is comfortable with this approach.

Secretary Patone recommends a one-year vote; 9% for water with \$1 customer charge for residential. The 9% will be reflected in all the categories. There would be a 3% reduction for electric with \$2 customer charge for residential. Mr. Knox would like to change the customer charge to \$1 for residential.

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Mr. Knox made a motion to reaffirm a cash reserve of \$2.7 million, make a recommendation to the consultants for a 9% overall water rate increase with a \$1 residential customer charge increase, a 2% bandwidth to design the rate structure based on service size. For electric a 3% rate reduction with a \$1 customer charge increase for residential and a 2% bandwidth as appropriate to all the categories. Mr. Hansen seconded the motion. The motion as approved by unanimous vote.

Secretary Patone will inform the consultants of the Commission's direction tomorrow. She will get a design before the next Commission meeting and follow up with a comparison of approximately 20 customers to show commissioners what the impact looks like for them.

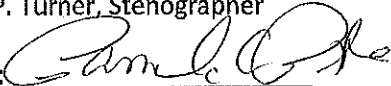
Mr. Sippel talked about plans to honor former commissioner Robert Appleby who passed away recently. A resolution will be prepared and the family will be invited to the February meeting.

ADJOURNMENT

A motion was made and seconded to adjourn the meeting. The motion received unanimous approval. The meeting adjourned at 5:18 p.m.



Deborah P. Turner, Stenographer

Approved: 
(Minutes transcribed from recording.)