

MILFORD CITY COUNCIL  
MINUTES OF MEETING  
March 3, 2016

A Meeting of the City of Milford Public Works Committee was held in the Joseph Ronnie Rogers Council Chambers at Milford City Hall, 201 South Walnut Street, Milford, Delaware on Wednesday, March 3, 2016.

PRESIDING: Chairman Owen Brooks Jr.

IN ATTENDANCE: Committee Members:  
Councilmen Chris Mergner and James Burk

City Manager Eric Norenberg & City Clerk Terri Hudson

Finance Director Jeff Portmann, Electric Superintendent Rick Carmean and Water/Wastewater Supervisor Eugene Helmick were also in attendance.

Chairman Brooks was unavailable at the start of meeting. As a result, Mr. Burk called the meeting to order at 5:33 p.m.

*Smart Meter Project*

City Manager Norenberg opened the meeting by stating that all three items on the agenda need to be reviewed by the committee to prepare for a later discussion with city council.

He explained the smart meter project involves the electric and water department operations. The presentation in the packet was also recently presented to City of Seaford prior to a review by our electric superintendent and city manager. Mr. Norenberg has scheduled a presentation on the electric rate study at the March 14<sup>th</sup> council meeting.

The city manager explained the advantage of participating in the AMP lead project, is they have already done the research and investigations, both on the reader metering and software side. AMP was hoping to get to a critical mass of 90,000 to 100,000 meters which they have reached. They are now at the point of recruiting member communities to participate.

Mr. Portmann added there will also be ongoing expenses associated with cloud and the other server. Those numbers have not been received as of this date. At the same time, he noted there will be cost savings with not having the meter readers go out every day.

Mr. Burk asked how many man hours will be saved; Mr. Mergner asked how we will sell this to the public and asked what is the tag line is or what is the benefit to them.

Mr. Burk asked if this is needed because of aging infrastructure and the ability to get the end user to be more aware of their usage; Mr. Portmann confirmed that lowering kilowatt hours during peak times results in cheaper rates.

The city manager reported that the City of Corpus Christi had meter readings approximately every fifteen minutes; they were able to generate an exception report every morning that would inform their water department of anything unusual as well as report possible leak areas. Instead of a customer waiting until they received the next month's bill to find there was a problem, the water department would immediately notify them. That kind of customer service provides greater awareness of conservation and causes of electric spikes. This can also help the police department and others identify unusual electric consumption trends as a result of unusual behavior.

Mr. Norenberg is convinced this will better manage our system in a number of ways. Studies have shown that customers who are more aware of how they are using electricity can change their behavior. Those customers who are concerned about the current bills can make some decisions based on their household use and devices used on a regular use to reduce costs.

Mr. Norenberg said he is unsure if the electric superintendent and finance director have determined the savings from a staffing standpoint. He said we will still have at least one person responsible for keeping track and servicing the meters. However, the meter reading that occurs on a regular basis can be done electronically which will result in some efficiencies.

Mr. Portmann emphasized that one of the biggest benefits is no longer having to disconnect customers at the site; instead both disconnecting and reconnecting can be done electronically. As a result, all that labor is eliminated. The on-call costs at night and weekends go away as well.

Mr. Carmean said that the City of Seaford does an average of 33 disconnects a month which cost approximately \$50 each; with the new system, their monthly savings was \$1,016 and annual savings of almost \$19,000. He believes that Milford has more than 33 disconnects a month and believes that number should actually be higher.

Mr. Burk said there are a lot of man hours involved considering the customer service representatives hours in addition to the time that will be saved by our public works employees.

Mr. Carmean added it also has a portal that customers can access and review their usage; Mr. Mergner feels that is very important in addition to the ability to communicate with our residents to notify them of the upcoming system upgrades and how this could potentially impact electric usage/fees. He feels this is probably the most vital part of this program.

The electric superintendent reported the electric readers are still doing drive-bys with ITRON readers that are six years old. The last price received to replace the readers was approximately \$40,000. There is an issue with reading the water meters and they will get to the point that they have to be completely replaced.

Mr. Helmick said changes are needed because we are already experiencing problems with the ERP's as we are replacing approximately thirty to fifty a month. He said we are lucky the company is still replacing them. He recently upgraded to a higher level ERP and the company agreed to replace them at the original cost.

Mr. Helmick agrees this is the direction we need to go.

Mr. Burk agrees that we need to sell this to the taxpayers. He suggests getting some customer testimony from AMP that we can use. He does not think we will get much push back from our customers.

Mr. Mergner said that anytime he talks about a city-related issue, the cost of our electric is always an issue. He hears the most complaints from commercial customers though he hears a great deal from residents as well. He reported that in his ward, a lot of residents have moved here from different states and are not used to paying these rates.

Mr. Burk pointed out our rates are very competitive when looking at the chart DEMEC sends out. However, he agrees the automation may be a hard sale because people cringe when they hear anything about electric rates.

Both councilmen agreed that a lot of PR will be needed by city staff.

Mr. Mergner needs to know how to explain how this program is going to benefit our customers; Mr. Carmean said the customer will be able to go right into the system and observe the usage within an hour or two. He will be able to curtail that usage knowing what devices he has most recently used.

Mr. Mergner said no one wants to see their electric increase though he agrees this is the way we need to go. His biggest fear is how this will be announced to the community. He feels we really need to take that extra step.

Mr. Norenberg stated that he has had the same conversations and over the next couple years, we need to blend this with efficiency and conservation by educating the public. He has seen a lot of continued incandescent light bulb use throughout the community and feels the city needs to lead the charge by converting to LED and CFL's bulbs which are much more efficient.

He said we may even want to consider a program where we are providing incentives and support for customers to make more efficient choices in terms of appliances. The city manager stated that AMP has a program along that line and we may want to determine what the participation costs would be.

Mr. Norenberg referenced the finance director's earlier comments that this program has been in works for many years and we are finally diving into this. However, we may also continue to investigate a customized efficiency program that can be promoted simultaneously.

Mr. Burk asked Mr. Carmean to have someone reach out to commercial customers in Seaford for possible testimonials. Mr. Carmean informed Mr. Burk that AMP is putting together a program and this is in the infant stage. He said it took eighteen months to get it together by November. Seaford was one of the first twelve municipalities to get into the program; Milford is part of the last twelve.

Mr. Brooks arrived at this time.

Mr. Carmean said his department is able to put up the collectors and install meters, but getting the data management to go into the billing part is the scary part. He said AMP will be helping by putting a program together to sell this to Milford's customers.

Mr. Norenberg said the next step is for the superintendent to reach out to AMP to schedule a time to make the presentation to a full city council and get authorization to sign the non-binding letter of intent. Once that is accomplished, there will be more analysis in terms of actual costs, begin to map out collector locations, etc. This will not occur right away, but will start the wheels in motion to develop a plan of action and eventual implementation.

Mr. Burk moved to recommend proceeding as discussed, seconded by Mr. Mergner. Motion carried.

#### *Electric Rate Study*

Mr. Norenberg referred to the proposal in the packet from Utility Financial Services (UFS). Before we proceed with the project, he wants UFS to give an overview to city council on March 14<sup>th</sup> so the scope of the study is clear, what to look for and what the end result will be. The proposal will then come back to city council in the form of a recommendation which is why they need to fully understand it.

Mr. Portmann stated that an overview for the past rate designed was done about four years ago. Since the inception, we have had to use the power cost adjustment (PCA) every month which means the rate design did not work as intended. He said there should never have been a PCA added immediately with the new rates.

He explained that if we did not add the PCA every month, the city would have lost a million dollars during two of the last three years and a half million dollars the other year.

He continued by explaining that to get the proper rate design, we need to add the PCA to our rates. Other considerations could be the class of customer and whether or not we are charging the correct rate per customer.

Mr. Portmann also pointed out that we were paying a consultant until this past December to tell us to add a PCA every month. With this proposal, we will do an analysis spreadsheet every month to determine on our own. We can then determine whether we have a negative or a positive PCA and whether we can refund money back or need to add on something. He pointed out that has never been done in the city and has always been done by a consultant.

He stated that UFS will provide us with a template and we will be trained to determine what the consultant has been doing for us all these years.

Mr. Portmann noted that Mr. Carmean also has a solar energy issue with the rates.

Mr. Carmean suggests that the city look at solar systems which are becoming more popular among our customers. He said that adding solar systems will get us to the point that we may not have the money for maintenance for the overall system. He explained they are taking all this kW off the system and taking dollars from the electric company. In the meantime, we still have to maintain the entire system.

This company was found through DEMEC when AMP (American Municipal Power) did the same thing for DEMEC. They also gave a rate study class in Philadelphia in which he and two other employees attended. They do a lot of American Public Power Education and AMP education according to Mr. Carmean.

He said their Vice President Dawn Lund was able to break it down to a level that two other employees were able to understand it. Following that, DEMEC did a generation rate study. UFS President Mark Beaucham was also able to break it down to the point that anyone could understand it.

Two other DEMEC municipalities are also using UFS.

Mr. Carmean agrees that our current consultant was charging a monthly fee to break out the PPCA. He and Finance Director Jeff Portmann discussed this with Mr. Beaucham who explained they would build a spreadsheet in which our employees could plug our numbers in and determine the same thing without any added costs.

Mr. Mergner asked if the purpose is to educate or empower our staff, lower the customer rate or some other goal; Mr. Carmean said the goal is to determine the actual cost of our rates. Two or three studies will be performed that will determine how much money is needed in reserves. He said it will include everything from what it costs to operate the system to how much is needed in reserves. They will then include that information in the report.

Mr. Portmann noted that it will be up to council to decide what is needed in our rates. For example, if reserves need to be increased, that will impact rates. However, if council feels there is enough in reserves, that can be removed. They will analyze our capital needs and adjust the rate accordingly. That is in addition to the gross margin on the power and ability to cover operational costs.

When asked exactly what DEMEC does, Mr. Carmean said they purchase the electricity for us; however, they do not get into the rate study.

Mr. Carmean said he asked DEMEC President Pat McCullar for a list of engineering firms and was very impressed with both the vice president and president of UFS. As stated, they informed him a spreadsheet was all that was needed to remove the monthly expense being paid to our consultant who does the same thing.

The city manager then referred to page seven of the proposal and the cost of service analysis and rate of return necessary for the utility to cover our cost. There is a need to look at each of the class of services. The monthly customer charge needs to be reviewed to ensure we are recovering enough from all customers to cover the distribution costs of the system. He added that each of the municipalities have different fixed costs to maintain and operate their distribution systems, which includes staff or substation operating costs and power distribution. All of that will be there regardless of if our customers are using a lot of electricity or a little bit, and regardless of solar being installed on roofs.

In that case, if they are not generating electricity and not giving us a fair rate of monthly return to cover the cost of maintaining that system, when the wind blows and knocks down a power line, that still has to be repaired even though they may have been powered by solar the past year.

That fixed cost is mandatory similar to maintaining our water system so the fire hydrants are ready to go when water needs to be available. He emphasized there are certain fixed costs that need to be recovered. The cost from the actual electric commodity is where things vary each month.

Mr. Norenberg stated that is the summary of what is needed from this study. It will include the cost of service analysis, how things break down and the classifications of service.

He noted that we have some major industrial customers who are very cost sensitive to the rates they are charged each month and how that translates into the price and service of the products they provide.

The city manager met recently with US Cold Storage who is very concerned about understanding their rates. Because that

could translate into an additional penny being charged per item, for example.

Mr. Mergner said for example, Cold Storage goes out and acquires solar panels which decreases their usage from the city and saves them money, but hurts the city's bottom line. He asked how we are we preparing for this trend as he sees more and more houses convert to solar.

Mr. Carmean said they are right on the cutting edge of solar and this company deals mainly with municipalities and understand what we are facing.

It was confirmed that we recently changed our ordinance to require a building permit fee for solar systems. In the past, that was never required though Mr. Carmean tried for years to get that implemented though it never went before council. He is pleased we finally got that done.

He said within one year, we went from 23 systems in Milford to almost 70. At one time, we were getting seven or eight a week with no building permit.

Mr. Carmean said the bigger problem is the solar meter cost approximately \$400 which comes out of the metering budget. He added that the city is unable to charge the meter fee to customers by State of Delaware regulations.

Mr. Brooks pointed out that both New Castle and Lewes are using this company and added that both their rates are much lower than Milford.

Mr. Carmean feels we need a change and a different consultant.

Mr. Portmann pointed out we definitely have a faulty rate design which does not mean it is high or low. The fact is that for the past four years, we have had to add the PPCA every month because of a bad design in 2012.

Mr. Carmean emphasized that during this time, the consultant charges the city every month to tell us how much the PPCA should be.

Mr. Mergner asked about Mr. Carmean's earlier comment regarding future maintenance; Mr. Carmean explained that we have solar added to the city system which takes away from the bottom line.

Mr. Mergner asked which solar field the city owns; it was noted that the city only owns the one the former city manager placed on the corner lot of our business park at Canterbury and Airport Road. PS&G, the company owning the Route 14 solar field provided that because the city assisted them with their large solar field.

Mr. Norenberg feels that council needs to understand we have to recover our fixed cost for the distribution and operating system as well as the cost of Mr. Carmean and our electric crews. When we pay DEMEC for power, the variable cost can be passed through at little or no markup if that is the policy direction from the city. This rate study will help determine how to do that.

He added that a lot of people are generating electricity through the panels on their roof. As long as the city can cover our fixed costs to maintain the system, then we can make sure the distribution system is in tact and we are able to do preventive maintenance and repairs.

The city manager said if council does not want to mark up the rate, then we will need to find other ways of generating revenues to support the operations in the city. Something will need to be built into other rates and services to balance any decrease.

At the end of the day, Mr. Norenberg informed council they have the ability to fund the general government through property taxes.

Mr. Portmann confirmed there is a \$2.5 million transfer that comes into the general fund for the past fifteen years.

Mr. Burk added that we are not like Delaware Co-Op, who is running a nonprofit, and feels it is important to cover our operating costs. He said the perception by our residents of how high our electric rate in comparison to other municipalities on the comparison chart is completely opposite. He feels it is very important our customers see that chart to prove we are right in the middle.

Mr. Mergner feels it is a good idea to do an electric day, where staff can educate our customers and promote and communicate city electric. He emphasized it is a hot topic particularly in his neighborhood. If this will help do that as well as continue to let council learn and put us in a position to charge what is needed to cover our costs, then he is in favor of it.

He is thinking what will happen years down the road with electric, solar panels and conversions. He referenced Delmarva Power that is funding commercial projects with new LED's, for example, for almost no fee.

Mr. Norenberg continued by stating we will have this presentation coming up for UFS at the next council meeting as an informational topic. He said we won't need an ordinance for council to approve though he wants council involved earlier rather than get a report in a few months.

When asked how long this will take, Mr. Carmean said four to twelve weeks from the time we tell them to proceed. He advised that when the project is done, they will do another presentation.

He reiterated that this will be presented at the March 14<sup>th</sup> meeting at which time more information on what is happening next will be discussed.

*Electric Reserve Fund Transfer for SE Water Tank Power Supply*

The finance director informed the committee that Mr. Carmean has requested \$190,000 to run power to the Southeast Water Tower, well and sewer station that will be built on the east side of Route 30.

He explained they will go aerial across the field by the substation and chase into the high line across to Route 30, then drop down to underground to the area where the road comes in Route 1, under Route 30 and on into the water tower.

Mr. Carmean explained the \$190,000 will cover the costs of the underground lines, including equipment.

Mr. Mergner asked if this was included in the scope of work for the water tower; Mr. Carmean said there was an easement to allow service to the Milford Housing Authority property, but the hospital bought it. Since then, they have been working with the hospital to get service through that property.

Mr. Mergner then questioned if this can wait until the hospital construction starts; Mr. Carmean said no.

Mr. Portmann explained the USDA loan for the water tower expires this year. As a result, the money must be spent by October and recalled we have two extensions that go back to 2007. The tower is now built and needs power to operate. We have been trying to get these easements for months and pointed out he inherited the problem as the interim city manager and has now passed it onto Mr. Norenberg.

At this point, the finance director emphasized this is a time-sensitive issue at this point.

Mr. Norenberg said he received feedback from Bayhealth early this week. The city sent comments back and he feels we are getting close to finalizing the easements. In exchange for the easements, Bayhealth wants to swap a very small triangular piece of property that is next to the substation that provided access. He stated the swap should not be a problem. It will help square off their property which they will use to access their future entrances.

The city manager explained the water project downtown is dependent on being able to take that tower out of service and this new tower needs to be operational to provide the appropriate water pressure otherwise, we will be short of water eventually. The next phase of this project downtown is on hold until this water tower and pump are on line.

Mr. Portmann explained the developers in this area will pay for a large portion of this bill. When Wickersham and Wilson come on board in the future, they will pay the fees for the electric. Mr. Carmean added that Nemours will also participate financially. This line will serve Wilsons which is located at Johnson and Elks Lodge Road and Wickersham which is by the water tower. Anything that develops on the hospital property, such as Nemours, can then connect as well.

Mr. Portmann said that Bayhealth and Nemours and any other area developers should pay for all of it. However, Bayhealth has changed their request on how to have electric delivered to them.

Mr. Carmean added that they now want two dedicated circuits out of the city substation that will only feed the hospital. That will come at a cost of \$2.5 million because two bays will be added to the substation and two circuits will be run underground encased in concrete.

The superintendent said the majority of this \$190,000 will be recouped though the city has a stake in this because of the water tower along with the other developers.

Mr. Mergner and Mr. Burk want to recoup the majority of this money.

Mr. Portmann explained there are two pieces on this funding—\$90,000 from developer fees which are older developer fees. There is probably eight or nine old projects that are six to seven years old that have approximately \$10,000 to \$15,000 each. If an estimated \$55,000 (for example) is needed for a new development, Mr. Carmean provides the worst case scenario and that fee is funded to the city which is not a reimbursable fee. Perhaps, only \$40,000 is spent and \$15,000 is left. As a result, there is \$90,000 in leftover funds. The request is to use \$90,000 from that account and \$100,000 from electric reserves.

The finance director continued by stating we hope to recoup \$100,000 from the other developers as they connect.

Mr. Brooks moved to recommend approval of the \$90,000 developer fee and \$100,000 electric reserve transfer to cover the cost of expanding electric service as described, seconded by Mr. Mergner. Motion carried.

*Adjourn*

With no further business, Mr. Brooks adjourned the Public Works Committee Meeting at 6:25 p.m.

Respectfully submitted,



Terri K. Hudson, MMC  
City Clerk/Recorder