

MINUTES OF THE MEETING OF THE
CITY OF SEAFORD ELECTRIC COMMITTEE

4:00 p.m.

January 11, 2018

MEMBERS PRESENT: Dan Henderson-Vice Mayor and Chair, Dolores Slatcher-City Manager, Charles Anderson-Assistant City Manager, Bill Bennett-Director of Electric, June Merritt-Director of Finance & HR, Public Representative-George Logan, Public Representative-Sharon Drugash, Public Representative-Toby French, David Downes-Downes Associates Inc, Patrick McCullar, Kimberly Schlichting and Lou Vitola-DEMEC.

Vice-Mayor Dan Henderson called the meeting to order at 4:00 p.m. and welcomed guests in attendance. Vice-Mayor Dan Henderson called for a motion to discuss New Business Item #2 on the Agenda first. Mr. George Logan made the motion with a second made by Mrs. Sharon Drugash with all in favor.

Mr. David Downes presented the 2018 PCAC relevelization, impacts and DPL/DEC rate comparisons. The PCAC (Power Cost Adjustment Clause) is updated each year and part of the City's tariff. Its function is to pass along wholesale power cost changes to our electric customers. A mechanism that trues up dollar for dollar so that customers pay no more or no less than the City's power supply cost. The power supply cost for the City from DEMEC for 2018 comes in at \$72.37/MWh, a reduction from last year. The proposed PCAC to be billed to our customers in 2018 is a credit of (\$0.01002). The PCAC credit to be refunded in 2018 is (\$1,070,588) with no over or under collections at year end. A total retail rate impact of an average 5.3% reduction to our customers. Residential rate comparison with DPL (Delmarva Power & Light) and DEC (Delaware Electric Cooperative) are as follows:

- City of Seaford's and DPL's proposed residential rates - DPL 1.3% higher than Seaford
- DEC's current residential rates and the City's proposed residential rates - DEC (19.7%) less than Seaford.

The consequence of Mayor & Council actions regarding previous reductions in wholesale power cost has been sequestered by the City for amortization of debt service. Mr. Downes reviewed the monthly debt service collection totals for 2016, 2017 and 2018.

Mr. Lou Vitola, DEMEC Vice-President of Finance presented the current financial budget expressed on a component by component basis. The original budget of \$9,000,000 was crafted by Downes Associates, Inc and has gone through iterations and revisions. The purpose of this latest version of the budget is to really hone in on the financing requirement and make sure that we advance the right amount of funding to cover all the costs of the project and any contingencies that may happen. The base amount is primarily known bid awards, known contractual amounts and accepted change order amounts, but it does also include some estimates for some projected costs for known activities. The contingencies reflect additional allowance of the unknowns. If the known certain contract items are separated from the base amount unknowns and estimates, more than 87% of actual costs are identified for the project so far. We will not reach 100% certainty until the project is complete and in service. With exception to

the transformers and breakers, all other numbers are truly estimates and subject to change as the project unfolds.

The substation and distribution part of the project costs \$7,200,000, however, Seaford paid for the design which is incorporated into the budget, but not part of the financing. Plus, the accumulation of reserves for down payment make for an estimated financing requirement of \$6,094,000. The same exercise was used for the AMI component for an estimated \$1,379,000. A grand total estimated financing requirement for all projects is \$7,473,000.

Mr. Lou Vitola stated the bond term is twenty (20) years for the infrastructure component and ten (10) years for the AMI component. The maturities of the bonds are tied to the useful life of the assets. With tax exempt bonds the issuer cannot issue bonds with a term that exceed the economic life of the assets by more than 20%. The principal substation equipment should have a life of 35-50 years and the AMI components have a life of 12-20 years. Seaford is within the regulations and prudently squeezing down the term of the debt service as low as it can go saving interest costs. Interests costs are estimated as of 01/08/18 and subject to change based on project requirements and market conditions. Required financing, the term and the estimated rates drive the debt service estimate. DEMEC is responsible for the debt service. Once the debt service is known Seaford will be responsible for the annual debt service divided by 12 paid monthly through the DEMEC wholesale power bill, then DEMEC will make semi-annual payments for the debt service to the bond holders. The estimated annual first 10 (ten) years is at 0.00620 and the last 10 (ten) years an estimated 0.00445.

City Manager Dolores Slatcher shared that as of 11/30/17 funds in the amount of \$832,407.24 have been set aside for the project.

Mr. Lou Vitola reviewed the infrastructure improvements budget noting the expenditures of \$4,417,478 as of 12/31/17 and the first payment to AMP for AMI was made at the end of November 2017.

Director of Electric Bill Bennett gave an update on the Pine Street Substation progress advising all concrete has been poured, all distribution breakers are in place, two 69kV circuit breakers need to be set once Central Substation is off line. Approximately 75% of control wire to the transformers and the breakers has been pulled and terminated and some testing done as the control wiring is complete. Once Central Substation is deenergized the structure will be taken down and items valued put out for RFQ. The Substation is 75-80% complete to date and on schedule with total completion on or about the end of June 2018.

Mr. David Downes left the meeting at 4:55 pm.

Director of Electric Bill Bennett gave a report on the distribution improvements stating most segments are complete. Porter Street has some wiring pending and transferring houses to the new secondary's. There are connections pending the energizing of the Substation due to circuit changes. Sussex Highway segments are waiting on DP&L work to be done and transmission poles that are needed to serve Central Substation should be done this week. Circuit 270 directional boring began today under Stein Highway bridge. All segments have poles that need to be pulled once Verizon, Comcast and Fibertech make their transfers. All materials are in and materials borrowed from other utilities replaced.

Director of Electric Bill Bennett reported that the AMI infrastructure with AMP project RF's facilities were in place for the entire system. Approximately 50 test meters deployed city wide are communicating. These meters are also being read manually for accuracy. Remaining meters should be deployed April/May time frame.

City Manager Dolores Slatcher advised receipt of one quote and was hopeful to have the second quote by the next meeting in regards to obtaining appraisal for purchase of land for the switching structure needed for the second tie point with the Delmarva Power 69kV line out of their north substation.

Director of Electric Bill Bennett informed everyone the Solar Array has produced 929.61 megawatts for 2017 calendar year. This may differ slightly from SREC's due to meter reading dates. Twenty invertors and optimizers are on the system that may need to be replaced during the life of the system and we are currently working on obtaining costs for these items.

June Merritt-Director of Finance & HR gave an update on the Solar Array borrowing authorization. The project has been complete for about a year, but due to an outstanding minor loan balance the bond did not get closed out. The last expenditure was the end of June with the bond ending Sep/Oct 2017. The principal forgiveness of \$500,000 was reduced to \$460,988 since the final project cost was less than the initial issue amount. The SRF loan amount of \$1,158,300 is the same as the SRF net authorized loan amount. The first loan payment of \$36,013 is due 05/01/18. The SREC value sold and in reserve as of 09/30/17 is \$81,510, providing sufficient funds to cover the debt service.

Vice-Mayor Dan Henderson called for a motion to accept Downes Associates relevelization, impacts and comparison findings regarding the proposed PCAC rate for 2018. Mrs. Sharon Drugash made the motion to recommend to Mayor & Council for approval at the next council meeting the proposed PCAC rate for 2018 with a second to the motion made by Mr. George Logan. All present were unanimous.

There being no further business or discussion; the meeting adjourned at 5:10 p.m.

Jeanne Sapp, Secretary