

MINUTES OF THE MEETING OF THE
CITY OF SEAFORD ELECTRIC COMMITTEE

3:00 p.m.

October 14th, 2020

MEMBERS PRESENT: Charles Anderson-City Manager, Matt MacCoy-Councilman and Committee Chairman, Bill Bennett-Director of Electric, June Merritt-Director of Finance & HR, Customer Service Coordinator-Jeanne Sapp, Chris Simms-Smart Utility Management, LLC., Alexander "Lex" Greer of George, Miles & Buhr (GMB), Isaac Ross and Virginia "Gigi" Hastings-Public Representatives.

Councilman MacCoy called the meeting to order at 3:13 p.m. and welcomed the guests in attendance.

New Business

Councilman MacCoy presented New Business Item #1: Chris Simms, Smart Utility Management, LLC (SUM) to present Retail Rate Maintenance Options.

Mr. Simms stated that his team has been maintaining the electric rates for the City of Seaford since 2008 and the customer charge was first introduced into the utility billing rate structure in April 2013 at \$4.00 for a residential customer. He explained the reasons for a customer charge and it is evaluated regularly to ensure it is at a sufficient level is to help the City cover the cost of its operating expenses for running the utility itself excluding the power supply cost. He further explained that the customer charge is designed to cover the fixed costs of the utility i.e. maintaining the system, salaries, benefits, etc. He noted that because it is difficult to introduce a large figure at the start; the decision had been made to start at a small rate and progressively increase it over time. He also noted that outside utilities, as well as Seaford, have been steadily increasing their customer charge to ensure the coverage of those fixed costs. He shared a comparison of Delaware utilities minimum bills and stated that Seaford has a customer charge of \$10 but the minimum bill is \$15 which covers up to 45 kWh. He noted that even a \$20 customer charge is not comparable to the costs of maintaining the utility which would need to be \$100 per residential customer to cover those costs completely. He further explained that typically there is 60/40 split in costs with 60% power supply cost and 40% fixed costs. He noted that in other cities and other states the "acceptable" minimums or customer charge is between \$20-\$30. He noted that the customer charge was increased in 2019 from \$8.75 to \$10.00. He stated that the commercial accounts are not being looked at for an adjustment to their customer charge during this time period as they are already towards the top of the list in comparison to other area utilities, the suggested changes in this adjustment period are for residential and small commercial non-demand customer accounts.

Mr. Simms explained the difference in a residential rate class and a commercial non-demand rate class and the reasoning behind the price differences for each. He then went to review the current rates as well as option 1 for the suggested rate maintenance. He clarified that while the customer charge is rising the rate maintenance is revenue neutral because the rate in the middle block is going to be lowered in the proposal. He noted that the customer charge will slightly raise very small electric load accounts i.e. mid-month move in/move out customers, separate garages, etc., but the majority of residential customers will see a slight decrease in their bill as long as they use more than 45 kWh on a monthly basis. He noted that the average monthly increase for small electric load accounts would range from \$0.49-\$1.50.

Public Representative Isaac Ross inquired about his electric account for his church and how this change would affect his bill in the coming months. Mr. Simms explained that an individual that is receiving a bill of \$100+ has enough electric usage to see that small benefit of the rate decrease for the second block. Mr. Ross clarified that he is referring to his church account which has a demand meter. Mr. Simms confirmed that there are no proposed changes to any demand accounts, so there would be no impact to his small commercial general demand church account. He noted that the only change at this time that would happen to his demand account would come if the power supply wholesale cost from DEMEC changes.

Mr. Simms then reviewed the information and change for option 2 of the suggested rate maintenance. He also explained option 3 for the rate maintenance which changes the customer charge to \$15 meeting the amount for the minimum which he stated has been the ultimate goal of the City since the customer charge was implemented and rather than have a "minimum bill" just "replace" it with the customer charge.

City Manager Anderson referenced the graphical representation of the rate change information to assist in the explanation of the way that the increase in the customer charge would affect the customer. Mr. Anderson stated that the majority of residential customers will be positively impacted by this change and receive a slight decrease in their bill. He noted that the reason for implementing an increase in the customer charge is to ensure that those minimal usage accounts are carrying their fair share of the fixed costs that are needed to fund the electric utility. He further stated that the goal is to modernize the electric utility rates hence the implementation and progressive increase in the customer charge. City Manager Anderson confirmed that the suggested changes keep the electric utility rates revenue neutral because of the comparable adjustment between the customer charge rising and the decrease in the cost per kWh in the second retail rate block. He inquired of Mr. Simms when he anticipates notification from DEMEC about any wholesale rate changes. Mr. Simms responded that they vote on the rate change in December and then start billing at the new rate end of January. City Manager Anderson stated that once DEMEC votes on rate changes, SUM will bring back that information to the Electric Committee to revisit any other necessary adjustments for our retail rates. Mr. Anderson further inquired if the committee members had any comments or suggestions for which rate maintenance option staff should present to Council at their next meeting. He noted that himself and Director of Electric, Bill Bennett, had some previous discussion with Mr. Simms and they felt that the decision should lie between option #1 (\$11.50) and option #2 (\$13.00) as option #3 (\$15.00) seems like a large increase all at one time. Mr. Simms agreed that option #3 is too large of an increase as it would be increasing by 50% of the current charge but he feels there is ample room for a \$3 increase if the committee were to decide to recommend option #2. Mr. Ross noted that he feels going for option #3 would result in a large increase in unsatisfactory phone calls, especially because he believes that a lot of people don't fully understand their bill, as it sits currently. Mr. Simms stated that in order to be the most equitable he believes that our customer charge should be north of \$20 but that large of an increase needs to happen in incremental steps. City Manager Anderson agreed that the goal is not to rate shock our customers. He further inquired of Mr. Simms when the last change of rates to increase the customer charge was. Mr. Simms confirmed that in 2019 the customer charge adjusted from \$8.75 to \$10.00 with an increase of \$1.25. Mr. Ross inquired when the rate change would go into effect. After consulting with Customer Service Coordinator, Jeanne Sapp; if Council approves the change at their next meeting at the end of October, this rate change would be effective for November's consumption which would show on the

December billing. City Manager Anderson referenced the graphical representation of the changes for option #2 to visually show the effect of the change on the average residential customer's bills. Mr. Simms further shared the example that the majority of accounts that will see the increase in their bill from this rate maintenance would have to pretty much be vacant with almost no usage at all.

Mr. Ross inquired if the electric department still has to remove or adjust meters if they are disconnected. City Manager Anderson stated that with the smart meters there is no need for anybody to physically go to the property anymore to connect or disconnect the service for move in/move out etc. to ensure there is no usage but we are able to remove meters if there is an issue or a request. He further explained that if a meter is in the off position and there is any usage detected the meter will notify the office. Mr. Anderson inquired of the committee if any members have any comments or suggestions for which option to recommend to Council for a retail rate maintenance.

Councilman MacCoy noted that the roll out of the rate adjustments needs to be rolled out very tactfully in order to ensure that the customers understand how it is going to affect their bill. He also noted that in the COVID atmosphere a lot of residents have been negatively affected by the economy so the "wording" of a "rate increase" could bring about a negative reaction from residents although the rate adjustment is going to actually benefit the majority of residential accounts rather than hinder them. He further clarified that in his opinion the terminology and how it is explained to the residents is going to be very important. City Manager Anderson agreed and noted that some customers will receive the rate maintenance as a rate increase even though it is a revenue neutral change overall, so he agrees that the details and information shared with residents needed to be clear and understandable. City Manager Anderson clarified with Councilman MacCoy that under the circumstances he is leaning more towards option #1 rather than option #2; Councilman MacCoy confirmed because he feels that a marginal step forward is the way to go, but he would like to hear the opinions of the other committee members.

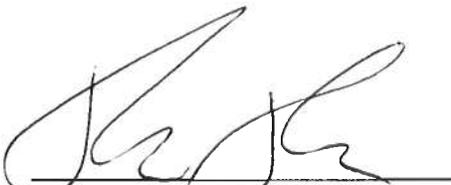
Mr. Ross stated that the reason for his question about when the rate increase would go into effect was because of the circumstances surrounding the economy as effected by COVID. He noted that personally he is concerned about the residents that have been negatively affected by the economy and he is in meetings on a regular basis and hears a lot about how much people are struggling so he wants to ensure that the decision that is made negatively effects as little customers as possible. He noted that there is a need to adjust the rates in some way to ensure that Seaford can continue to grow and progress as needed; he noted that a small increase is better than no increase, to ensure that those small accounts are paying their fair share of the fixed costs and that the City does not rely so heavily on the larger accounts to cover those costs.

Councilman MacCoy further stated that he feels that this is an opportunity to educate the Public on how to read their bill and how this change could possibly benefit them. City Manager Anderson stated that as he understood the change anybody that uses at least 600 kWh per month will actually benefit from this rate change and the average residential utility customer uses between 900-1000 kWh per month. Mr. Simms confirmed that it is difficult to use 500 kWh or less, and in that case the unit has to be underutilized or empty. City Manager Anderson confirmed that the increase will be seen mostly in empty units during a transitional period between tenants. Director of Electric, Bill Bennett, made the example that somebody were to move out of a unit on October 20 and the electric service in the vacant unit would be in the owner's name, they would probably see this small increase and vice versa if a tenant were to move into a vacant unit on October 20 they might see the small increase since they

would only be utilizing the utility service for about a week. He further noted that it should negatively affect many residents that are actually living in a unit because most, on average, lived-in units are utilizing in excess of 500 kWh. Councilman MacCoy inquired about possibly generating a generic fact sheet in general terms that could assist in educating residents on how to understand their bill and how the changes will affect their billing. City Manager Anderson stated that the fee and rates schedule would need to be updated with the change but that can be overwhelming for some people to understand so he agrees that some of the elected officials and staff could publish a video to explain the changes in general terms to our residents. He also mentioned working with customer service representatives on easy ways to explain the changes to residents so that they can understand if and when customers call about their bill. Mr. Ross stated that he feels communication with the residents is key in order to ensure that they understand how the changes may affect their billing and could actually be a benefit to them, even if only a small benefit. He further explained that he knows people are a lot of times trying to lower their usage in order to lower their utility bill and his only concern is somebody working to lower their usage to then receive a small increase in their bill. Councilman MacCoy stated that in order for this change to negatively affect somebody who is living in their unit they would have to cut back their usage to the bare minimum for example not even using their lights. City Manager Anderson noted that Mr. Simms stated that the majority of residential customers use 900-1000 kWh per month which would all have a small decrease in their bill from this change not an increase. Mr. Anderson stated that in order to see the increase a resident's usage would have to go below 650 kWh per month which would require reducing consumption by approximately one third which would take a lot of work and change in lifestyle. He agreed that there could be a select number of customers that may conserve their energy and see this small increase. Mr. Simms confirmed that the only increase they will see is in the per kWh rate because their overall bill will be much lower if they are able to reduce their consumption by that much. Mr. Ross requested clarification on whether the increase is on kWh. Mr. Simms and City Manager Anderson clarified that the increase is in the customer charge and the per kWh rate is actually decreasing in order to remain revenue neutral. Mr. Ross stated that he believes the best plan of action is to go for the middle ground with option #2 rather than either of the extremes with option #1 or #3. Mrs. Hastings agreed.

Virginia Hastings made a motion to move forward with a recommendation to Council to implement Option #2 of raising the customer charge to \$13.00, Bill Bennett seconded the motion. Motion so passed with all present voting in favor. Councilman MacCoy confirmed that the recommendation will go before Council for approval at the next Council meeting on October 27th.

There being no further business or discussion; City Manager Anderson made a motion to adjourn; Bill Bennett seconded the motion; with all present voting in favor the meeting adjourned at 3:58 p.m.



Jessica Johnson