

Lewes Board of Public Works

Rate Workshop
February 10, 2022
Virtual

The Thursday, February 10, 2022, rate workshop of the Lewes Board of Public Works was held at 1:00 pm virtually via Zoom.

1. WELCOME, CALL THE MEETING TO ORDER

President Lee called the meeting to order at 1:00 pm.

2. ROLL CALL

Board Members

D. Preston Lee, P.E., President

A. Thomas Owen, Vice President

Thomas Panetta, Secretary

Earl Webb, Treasurer

Richard Nichols, Assistant Treasurer

Ex-Officio Members

Theodore Becker, Mayor

Austin Calaman, General Manager

Robin Davis, Assistant General Manager

Michael Hoffman, Legal Counsel

Others

Joshua Gritton, BPW

Sharon Sexton, BPW

Dawn Lund, UFS

Kimberley Bellere, BPW

Ann Marie Townshend, City Manager

Nick Roth, Cape Gazette

Tim Ritzert, City Council

Andrew Williams, City Council

Robert Kennedy, ratepayer

Suzanne Powell, BPW

Brian

3. REVISIONS AND/OR DELETIONS TO THE AGENDA

None

4. WORKSHOP- Presentation and discussion of the UFS, LLC (Utility Financial Solutions, LLC) updated rate study for the BPW. (Dawn Lund, Vice President, UFS, LLC)

Mr. Calaman summarized the purpose of the workshop and past meetings/workshops held on the rate study. Ms. Lund had presented in July 2021, and since then there have been some administrative changes including Mr. Passwaters becoming the electrical supervisor. There were some adjustments to capital projects on the electrical side. Many projects had to be adjusted for inflation across the board. Ms. Lund has made those adjustments and updated the rate study.

Ms. Lund stated that with the change in the capital since July, UFS looked at how it changed the operating income, cash balances, and debt to income ratios and what it translates to for the customers with rate changes. Stormwater was not previously discussed and will touch on that today.

Ms. Lund presented a slide show. Only the capital was updated and how it affects debt coverage ratios, cash reserves, any possible bonding, and total operating income. The PCA (power cost adjustment) formula was also looked at. PCA is a certain amount of base power supply cost that are in the base rate schedule. Anything above or below the PCA is automatically passed down to the customer. It is a way to mitigate the financial risk of power supply changes to the utility. About 60% of utilities and closer to 80% of investor utilities use this mechanism. There are questions with the current formula and could not identify some aspects of the formula. It is working but may want to clean up the formula.

Ms. Lund displayed the electric summary that was seen in July of 2021 and the capital totaled \$2.18 million and it was recommended a 1.5% rate adjustment every other year. The new capital totals \$4.6 million and revenues that were originally thought to be coming in are not the same way. The revenues had to be adjusted accordingly. With increased capital and change in revenues the rate increase would be 2.5% per year. Ms. Lund recommends again cleaning up the PCA formula.

This rate increase translates for a regular customer using 750 kW a month, to \$2.50 a month.

Ms. Lund reviewed PCA: power supply costs in base rates. Anything positive or negative pass on to customer on a monthly basis.

- Stabilizes revenues
- 68% costs are power supply and out of Boards control
- Current PCA formula uses undocumented numbers
 - suggest cleaning up methodology
 - Current industrial formula is different than the other class, this is currently being analyzed. It is more complex and will make a recommendation. President Lee questioned the differences. Ms. Lund stated that the current industrial formula is a more direct. BPW's regular PCA formula is set up more commonly where any changes are automatically passed through. The power purchased or produced is divided by units billed and everybody pays that PCA. The industrial

PCA is different. Mr. Lund has not completed this analysis yet. Mr. Calaman stated that there were questions on the spreadsheets when this process started. Mr. Calaman stated that it was always done that way and that's what it was based on. There were fixed numbers in the industrial PCA. This is what led the BPW to reevaluate. It has been discussed to have a flat rate for industrial like the BPW does for residential and commercial. Mr. Calaman stated that Ms. Lund took in account the BPW's power supply cost. The wholesale cost has increased by 4.73%. Ms. Lund clarified that flat rate means a common formula that would be applied equally and fairly. Mr. Webb questioned if AMI comes into play at all with the PCA. Ms. Lund stated that AMI as capital cost, would come through the regular rate as depreciation. BPW sets rates on a utility basis. For example, if the BPW spends \$3 million on AMI and depreciate it over 15 years, that would come into the rates through depreciation. The PCA is not affected by AMI costs. Mr. Panetta stated that the flat rate does not change by season or time of day even though the rates are greatly affected by time of day and peaking usage. Mr. Panetta questioned if it should be considered to go to a usage rate with the implementation of AMI. Ms. Lund stated that currently the BPW does not have a strong signal for this. However, it could be changing. Ms. Lund stated that she was not here to discuss those possible changes today. It is being looked at and if the signal needs to be stronger to the members, and then the members would optionally change their rate structures to reflect that. If that pricing signal is sent on stronger to the members. It would be beneficial to look at the rate structure especially with AMI. Ms. Lund stated she does not mean tomorrow, but 5-10 years from now. In general, the electric utility structures are expected to change that all rate classes would have a customer charge, multiple demand charges, and time of use pricing signal. Ms. Lund stated the industry is moving in that direction, and discussion should be started. Mr. Panetta agrees Ms. Lund that the market is moving that way, but he believes that the BPW gets moderately strong signals now. The peaks are measured, and this is the congestion charge the BPW pays. Reducing the peaking would reduce the cost of energy a year. Mr. Panetta stated that to Ms. Lund's point, it will be forced on a daily, hourly basis. Ms. Lund stated that it is prudent to start moving the rates in that direction. Ms. Lund stated that it takes months to analyze the data and UFS would look at how each customer is affected by that rate design. If the signal becomes stronger, then the BPW would want to move in that direction more quickly. Mr. Panetta agrees but stated that the infrastructure is not in place and is not proposing that the Board change the rate right now. Until AMI is in, the time-of-day usage cannot be examined. Ms. Lund stated that in general a year's worth of data is preferred. Mr. Webb questioned if AMI is in the current budget. Mr. Calaman confirmed that it is for the year 2022-2023.

Mr. Panetta questioned the total cash on hand in the electric utility decreasing considerably over the next three years. The concern is for post storm recovery. Mr. Lund stated the UFS

recommends the minimum cash reserve be at \$3.5 million. On the electric financial projection, the projected cash balance dips below that minimum and recovers in 2026. However, the recovery is based on the capital improvements. There is an aggressive expenditure in 2023, possibly the AMI and could have considered bonding for that. If that capital improvement projection holds true and the spending is greatly reduced, then the cash rebounds with small rate adjustments. This is a Board decision to allow the cash to dip to that level. Ms. Lund questioned if the BPW has a combined cash balance. Mr. Calaman confirmed. Ms. Lund stated that these projections try to show, who is drawing down. The BPW has one cash balance. Ms. Lund had to decide a fair cash balance is for each utility was to start with. In reality, if electric draws down \$2.5 million, the cash pot is not going to look like \$1.4 million and will be fine overall. The real cash balance is higher than what is being shown here (electric financial projection). With a large, extraordinary expense like AMI, this is a time a bond would be considered. Mr. Panetta stated that he is still uneasy with the low balance if the BPW were to get hit by a storm. Ms. Lund stated that most likely that \$2.5 will not be spent in one year like she is showing. The cash depleted would be spread out and help the cash balance. Mr. Panetta stated that there are other potential ways to finance AMI that will be discussed at other meetings. Mr. Calaman stated that DEMEC had presented an option to finance through them. Ms. Lund stated that if that were to happen, the cash would stabilize but would draw down slightly with that debt payment each year. Mr. Panetta questioned the \$1.75 is for all of the meters. Mr. Calaman stated that it was presented as full turnkey, which included the outage management system and transformer readings. The flipside is the O&M expense that could total six figures. Mr. Panetta stated that this is something that needs to be looked at more.

Tim Ritzert questioned the kWh charge for large generation (industrial) customers and does the Board have confidence that the kWh charge is sufficient to recover actual costs. Ms. Lund stated that this is one of the charges that will move with the change to the PCA formula. This will allow it to be more readily guessable and that it what UFS and BPW are working towards.

Mr. Webb stated that the BPW has a new set of eyes looking at electric and is probably very helpful. Mr. Webb questioned if this makes sense. Mr. Calaman questioned from a cost or timing perspective, or both. Mr. Webb stated yes. Mr. Calaman stated that yes, he believes that this is a mix of conservative and ambitious. There is a lot of undergrounding and coordination. For example, DelDot is doing an expansion on King's Highway and the road will be tore up and the BPW should take advantage of that. Mr. Calaman is confident in these numbers. The question is inflation for next year. Mr. Webb questioned if inflation was factored in for multiple years of the projection. Ms. Lund confirmed that it was entered progressive 2.9%-3.8%. If 7% was entered, then the rates would have had to increase higher than what they needed to be. This is why it is important to update these projections often, like BPW does. The projections are only as good as the data we know today, and we are in a different environment right now. Ms. Lund stated that she put in small incremental rates to keep the BPW up to speed with the financial targets. Ms. Lund stated that if she overshoots it one year then, the increase be lowered the next year. The goal is to lessen the rate shock to the customers and smooth out the rate increase while be prepared that things change. Mr. Webb questioned if the inflation is exactly the same across the four utilities. Ms. Lund stated that she used the same inflation to

avoid complication. Ms. Lund stated that she will not be exactly on, but she is trained to be close. Mr. Webb stated that if she could predict inflation she would not be here. Mr. Panetta stated that the proposing on the inflation is spot on. Ms. Lund stated that the BPW just needs to be flexible based on the best plan she could provide but may tweaking in the future.

Ms. Lund presented the water utility projection done in July 2021. The capital improvements totaled about \$8.8 million and showed bonding at about \$9 million. The rate recommendation at that time was at 6.9%. With the new capital went to \$18.8 million with bonding of \$18 million. There was a more aggressive capital plan in water. Look at the three key targets: operating income, cash balance and debt coverage ratio. This is what drives the rate increase. The rate increase is projected to go to 18.5% for every three years and more inflationary after that.

18.5% increase under current rates is about a \$5.00 increase for the average customer a month.

This will stabilize the cash balance and debt coverage ratio. The debt coverage ratio is at the minimum Ms. Lund wants it to be. It is at the 1.25 mark, but Ms. Lund would like it closer to the 1.45. Water utility is very susceptible to weather. If it is a cold wet summer, then the debt coverage ratio will be riding at the minimum. If the debt payment is being made, no one will come knocking at the door if the BPW does not meet the debt coverage ratio. If debt coverage ratio is not met and go to issue bonds in the future, then it can be looked upon unfavorably. Ms. Lund stated that when year four comes and the debt coverage ratio is not where it needs to be the 2.9% could be a 4.9%. This is a minimum rate track, so the BPW knows where it needs to be.

Mr. Calaman stated that there is a lot of infrastructure money out there, ARPA funds, so there can be some adjustments if money comes in. Ms. Lund stated that ARPA funds are automatic, without applying for them. These funds went straight to the city administrators to decide how to disperse the funds. They fall under four statutory requirements. The first falling under COVID-19. For utilities this means ARPA funds would make up for delinquencies. The second and third categories do not really apply water, wastewater, or electric. The fourth category applies directly to wastewater and telecommunications infrastructure. ARPA funds could be used to bring the projection down. Ms. Lund stated that the BPW must make their voice be known to the city officials. There will be a lot of people pulling in different directions for those funds. Mr. Calaman stated that the state also received \$925 million and is in the process of being allocated. This is another avenue for funds. Mr. Calaman stated that himself and Mr. O'Donnell set in on every WIAC meeting waiting for that allocation. Ms. Lund spoke about IJJ funds and that there is about \$55 billion dollars. \$15 million for lead line replacement, \$10 million is allocated to PFAS or chemical cleanup, and the rest is rolled into that package. With the IJJ, we are still waiting to hear how those funds will come down. Most likely need to apply for those funds. The notice of funding opportunity is expected to come in the next month or two. Grants.gov will notify when those funds are available to apply for and who is eligible. Although there are funds floating around, the only guaranteed funds are the ARPA funds.

Ms. Lund stated that if the BPW were to get funding, it would soften the bond issues needed. Most likely, the BPW would not get funding for all the projects that are needed so it would just soften the bonding needed.

Mr. Webb questioned when it comes to filing for the grants are there people that are available to help write up the grants in way that is advantageous. Ms. Lund stated that there are grant writers and offered another web site to visit: SAM. BPW should register with SAM, and this allows you to see where the grants are. BPW must register there to qualify. Two things to do to get started right now. One, make sure that the BPW has a dunce number, which is a nine-digit unique number for each entity. It is needed for SAM. If BPW does not have one, there is a link to obtain one. Second, register in SAM. Anyone who is looking for a federal grant needs to be registered in SAM. These two websites are very overwhelming when first opened. Ms. Lund stated that the websites are supposed to be more streamlined. There are videos and if clicked around a bit, a lot can be learned. There are grant writers, but Ms. Lund does not do this. No one knows what IJJ looks like yet and is certainly more complicated to get than the ARPA funds.

Mayor Becker stated that he attended a presentation by Secretary Geisenberger and in the Governor's budget, he has indicated what his desires are and how the ARPA funds will be allocated across the large spectrum. The presentation was to be posted but had not been as of yesterday. The governor's budget is an indication but must go to legislation for approval. Mayor Becker speculates we will not have answers until June. Mayor Becker will try to get the information from the presentation to share with the Board.

Ms. Lund presented wastewater financial projection from July 2021. The capital total is \$3.6 million, and the recommended rate adjustments were about 2.9% at that time. With the new capital updated to \$15.8 million and bonding of \$15 million, the rate increase would move to 7.9% each year.

7.9% is about \$7.00 a month for the average residential wastewater customer.

Mr. Webb questioned bonding and what interest rate is applied to that. Ms. Lund stated that these are 20 years at 3.5%.

Mr. Webb questioned if there is anything that needs to be looked into further as far as capital improvements. Mr. Calaman stated that the BPW is moving forward with wastewater and the pumpstations. The condition assessment is being done by GHD and will shed some light and give a framework moving forward. The BPW will work with Inframark to get a grasp on capital. GHD has given the BPW detailed quality work so far with recommendations. Mr. Calaman stated that there are opportunities where the capital improvements could be adjusted by pushing some and moving some up. When this is done, only looking at one year and the hope is that the following year nothing breaks or changes. A perfect world does not exist. Mr. Calaman is confident in this projection. President Lee stated that when this budget was put together, the Board internally made it aggressive in hopes that money would becoming available. President Lee stated that there may be things that can be shaved back if needed. Mr. Calaman agreed and mentioned that

some of the projects can only be done seven months out of the year. For example, Cedar. Looking to do the pipe assessment and the criticality of the projects. It is important to take advantage if DelDot is tearing up roads then replacement should be done then. Only being able to work seven months of the year hinders the ability to move a five-year plan along.

Mr. Webb questioned if these numbers have the emergency funding that was put in place at the last meeting. Mr. Calaman confirmed. Mr. Webb questioned if the projected expenses include pervious pavement where needed and include prevailing wages. Mr. Calaman stated that any funding from the state includes prevailing wages. The wastewater plant project will be a prevailing wage job. Mr. Webb questioned if looking at the 2024 numbers, does it include the prevailing wage. Mr. Calaman stated that it does.

Mr. Panetta stated that he is more comfortable with cash reserve than the capital projects going on in wastewater as opposed to electric. In wastewater, the projection maintains cash reserve for any unforeseen events that may occur. The wastewater system is at less risk than the electric system in a storm and this amplifies the concern on the electrical side. Ms. Lund stated that BPW will be borrowing in water and wastewater and not in electric. Remember there is a combined cash balance and the BPW will have the cash pot to lean on. Ms. Lund separated them to see if borrowing for AMI is the answer. The AMI is what is drawing down the electric cash for operations. Ms. Lund stated that the BPW needs to decide if bonding for AMI is needed. Mr. Panetta agreed.

Mr. Ritzert questioned if the wastewater forecast is the same across the board regardless the type of customer, i.e., residential, commercial, industrial. Ms. Lund navigated to the sample wastewater rate design slide. The BPW charges a wastewater customer by meter size. It is a progressive rate structure and is appropriate. The larger meter cost more because the infrastructure and service cost more. The larger meter also has more draw potential. The charge increases as the meter size increase. The BPW also charges a commodity rate of \$5.72 per 1000 gallons used. Ms. Lund stated that when it is said across the board, in this example she does not just take rate increase and apply on both sides equally. Ms. Lund drives the customer service charge using an old cost to service study and try to balance it from customer service charge and commodity rate. Then Ms. Lund looks at usage and how each customer is affected. This percentage will never be the same for each user. Each residential, commercial, and industrial customer, on average, is expected an 7.9% rate increase for wastewater. However, it is balanced between the fixed charge and the customer charge. If the page was finished all the way to a 10" meter, the rate would be designed so each rate would look similar. So, it is not straight across the board.

President Lee stated that one thing the BPW is not doing right now is charging for the load or strength of the waste. This needs to be looked at going forward. Ms. Lund agreed.

Mr. Webb questioned how often each utility is managed individually versus looking at different methods of pooling. Ms. Lund stated that they are each a separate enterprise fund. Electric is separate enterprise fund from water, wastewater, and stormwater. This is exactly what the BPW

wants to avoid, combining funds and having some funds subsidize the other. Mr. Webb stated that stormwater comes to mind as it is hard to determine what that cost is.

Ms. Lund stated that stormwater has never been discussed and is currently operating at losses. If nothing is done, the cash balances will go negative and is already going to go negative because there is capital improvement. If the losses in stormwater system were stabilized with capital improvements that are planned, a \$1.2 million bond and a rate adjustment of 15% is needed.

Mr. Panetta would like to discuss the issuing of bonds versus changing the rates to cover what is already viewed of loss. Ms. Lund stated for the amount of capital the BPW has, she would not recommend driving the rate increases higher to cover the bond. The rate increases would be so astronomical it would not be prudent, and it may not cover it all. Ms. Lund stated that the BPW still wants rate defend ability. Ms. Lund determines what the operating income should be and in the perfect world every line would be about \$100,000. In this projection, the Ms. Lund only gets to the \$100,000 in the fifth year. That means for the five years the program is not fully funded. This is done to balance the rate shock. This slowly works toward the target. This is a minimum. The cash balance is at \$120,000 and should be around \$150,000. Bonded for 3-year capital which is typical the max. For the capital improvement program, the BPW has, the rate adjustment will not sustainably cover it. Besides that, it would drive the operating income so far up that it would question the BPW's rate defend ability.

Mr. Panetta stated that rate increases to cover the \$1.2 million, but the BPW is only charging \$5.00 for stormwater now. Would increasing the rates to get to a more defensible position and bonding be a better mix. Ms. Lund stated that is up to the Board to decide what the rate increase threshold is for the stormwater system. Ms. Lund stated that there are a million ways to get there, such as 50% increase in the first year and 5% after that. Ms. Lund is trying to show a smoothed-out rate increase at a minimum, but it is at the Board's discretion. Mr. Panetta stated that there is a lot of public sentiment on stormwater fees and thinks that it should be looked at by lot frontage or some other way that reflects the usage as opposed to by meter. President Lee stated that in the MOU with the city this is an item that has to be worked on.

Ms. Lund gave background on stormwater. Stormwater is controversial. In Michigan there are several lawsuits for stormwater. Stormwater is a needed service and takes care or snow melt, rain, etc. to help mitigate flooding. The city put the pipes in the ground 50-60 years ago, and the infrastructure is not really good enough for what is needed for today. There are changing EPA standards and new technologies. It is becoming more expensive. Take a look at the BPW capital plan. The controversy is how is stormwater viewed, like a tax? One group says the city handles and manages the stormwater utility. The other side says that it is not fair to assess a stormwater charge based on tax because it would be on your assessed value. What does assessed value have to do with impervious surfaces? In general, there is not a good tie there. Infrastructure is becoming more complicated and more expensive. Some say that there needs to be a user fee. Ms. Lund does not recommend either way, as a tax or a fee. This is just the way it has been done. Residential equivalent unit (REU) is the impervious surface for the average customer. For commercial or industrial can conduct field studies and take measurements or use arial imagery

with computer software to determine what the total impervious surfaces are. For example, one REU and one small commercial customer that is a 3:1 ratio. That one residential customer should pay one REU and the commercial customer should pay three REUs. The utility counts how many total REUs are in the system and take their total stormwater expenses and divide that out. That small commercial customer would pay three times what the one REU customer pays. Michigan is experiencing problems because of something called the bolt test. It is the Headlee amendment with statutory requirements under that. The fee must be reasonable and for regulatory purposes. It must also be voluntary. The question becomes is a stormwater fee voluntary. The customer cannot control rain and snow unlike when they turn on and off their faucet. This is the controversy. Is the stormwater a voluntary fee in the customer's control that they are using a service or is a stormwater system for the greater good of the community and the city should handle. This is not a question Ms. Lund is here to answer.

Tim Ritzert stated that the rates for stormwater should reflect the demand at the property address. There are places in the system not based on the presence of a meter. Stormwater is a non-metered service. Ms. Lund agreed that this is one view of this, that a person should pay on the impervious surface on the demand or what is contributed to the runoff. The BPW current rate is not based on a metered service. The BPW charges \$5 for residential, \$10 for commercial, and \$20 for industrial. The point is that the current fee is not based on a meter service, but a flat fee. Ms. Lund stated that the question is what to do in the short term as the BPW is losing money and not operating at a positive. Stormwater is drawing down on the other utilities. The 15% fixes that. Beyond that, the Board needs to decide how stormwater is viewed: as a greater good or are people actually contributing and is it voluntary.

Mr. Calaman stated that Mr. Ritzert's statement pertained to way the stormwater is applied and is tied to having a water meter at the property. Ms. Lund stated that it is not based in the meter's usage. Mr. Panetta stated that the pushback the BPW receives is that there are parts of this town that does not have stormwater systems in place. For example, on the beach where it is low-lying and cannot drain to open sources. Why should they pay for stormwater? The opposing view is that the rest of the town needs to be drained so that they can drive through it to get to the beach. The BPW is maintain the stormwater system for the viability of the entire town. Ms. Lund agreed and recapped. The stormwater utility as is, is not covering its expenses and the 15% increase works to fix that and beyond that the Board needs to have a discussion how to view the system. As a rate consultant, she can see both sides.

Mr. Webb referred to the capital improvements on the stormwater projection and questioned if these are current numbers. Mr. Webb questioned if this covers requirements above and beyond what the BPW has today. Mr. Calaman stated that MS4 is in there but MS4 is like playing the lottery because it is the luck of the draw. It makes sense for the BPW to be labeled as the MS4 permittee. To be clear the city handles the streets, and they get the water to the BPW infrastructure. The opportunity for either the city or the BPW to be labeled as an MS4 permittee is up in the air. It was discussed if it was going to come with the census and there has not been any word yet. Neighboring towns on the western part of the county have been designated their programs and have started two years ago. Mr. Calaman stated that the BPW should not do

anything ahead of the game because it is unknown what is going to be requested when the time comes. Those numbers are placeholders. Mr. Panetta stated that there is \$600,000 for MS4 and it really unknown what will be required of the BPW. The last discussion Mr. Panetta had, it looked as it was at least two years out. Mr. Calaman stated that it was thought to happen in 2020-2021 but is unsure how much the pandemic played into that. This is coming from the EPA. Mr. Calaman is still assuming that it will happen within the next year or two. Mr. Panetta stated that the rules have to do with census and population, but it is also where the boundaries are drawn and this is where the uncertainty comes in. None of the towns here meet the requirements individually, but if eastern towns are combined then the threshold is met. Mr. Webb stated that he would rather be in a position to get some money now, knowing it is going to happen eventually. It is being proactive. Mr. Panetta stated that on the first phase of MS4 is to do GIS and studies, which the BPW is far along on. The next phase will be implementation. Mr. Calaman stated that the BPW has a lot of data and continues to expand that data and prepare for when the day comes. Mayor Becker stated that one thing to consider is the amount of impervious surface coverage and whether there is a rate adjustment. Mr. Panetta stated that it is something the BPW does not have data on. Mayor Becker is aware. President Lee stated that this is a regulatory nightmare because every time someone paves their driveway or puts a shed out back rates would need to be changed. Mayor Becker stated that this could be addressed with coordinating with building permits issuance and recognizing the changes of the impervious surface. President Lee questioned if a building permit was needed to pave a driveway. Mayor Becker stated that to repave it is not needed but putting in a new driveway a permit is required.

Ms. Lund continued presentation with the next steps:

- Review rate adjustments for 2023
- Revise the PCA formula

How each of these rate adjustments would affect the average use customer.

- Electric is about \$2.50 a month
- Water is about \$5.00 a month
- Wastewater is about \$7.00 a month

Mr. Webb referred to the Sample Electric Rate Design slide. Mr. Webb compared to Rehoboth rates, which had one for in season and out of season and questioned if this was popular in other locations. Mr. Calaman stated that this is for water as well. Mr. Webb is not proposing moving to this structure, just trying to understand it. Ms. Lund stated that electric in general is moving to time use rates, which would automatically take into account seasonal. Yes, the electric industry is moving that way. For water, the BPW does not have seasonality, but does have an inclining block rate structure. This means the more used, the more that is paid. This rate structure tends to favor the low use customer. This sends a water conservation pricing signal. People try to conserve to avoid paying more. Ms. Lund stated that the downside to this type of rate design is that the BPW is charging the larger industrial customers out of proportion as they will always fall over the 9000 usage. A lot of the cost burden is on the large user. Ms. Lund stated that seasonality is built in, in a tiny way. Most likely the customers that sprinkle will fall into the

higher category. This indicates to send high price signal to those who sprinkle and a softer pricing signal to a low user. It is not a positive design for commercial and industrial customers because they do fall in the larger rate block. Ms. Lund stated that she sees this rate structure across the country, but the most common she sees is a customer charge by meter size and then one by commodity rate. These rates became more popular during the energy and water conservation push. Typically, an industrial customer will have a stable, more even load throughout the year.

President Lee stated that it has not been discussed that the BPW has a separate rate for sprinkling and is relatively high compared to the domestic rate. Ms. Lund stated that this falls into the 272 category. Mr. Panetta stated that there is no wastewater fee with that charge.

Mr. Panetta stated that the readiness to serve monthly charge has not been discussed and is a hot button issue. Mr. Panetta questioned how much of the fixed costs is the BPW covering with the ready to serve charge in the three utilities. Ms. Lund stated that unless BPW is perfectly at the cost to serve, she does not know how much is recovered. In general, what is in that customer charge are items like administrative costs that do not change with usage. A portion of the distribution infrastructure falls into this category. Just because a customer is connected and has the ability to have service, there is a certain amount of infrastructure the BPW would need the customer to have. This is a minimum system analysis. Larger than the minimum is built because customers use that commodity, and this is the portion that is rolled into the commodity usage. About 20 to 50 percent is rolled into the distribution infrastructure and the customer charge. This is a very detailed analysis. Ms. Lund stated that a cost of service was not done this time. Mr. Panetta stated that as time moves on, the BPW is getting more and more renewable energy customers and they may have a net zero usage but are connected for when the "sun does not shine" and they need to use electricity. Mr. Panetta stated that this seems to be inequitable to renters, lower income homes, and those with homes that are not situated to put solar on. Those people are taking the burden of keeping up a larger portion of the infrastructure. Ms. Lund states that it is a little more complicated. The reason the industry is moving to different rate structures is to accommodate distributive energy resources. Ms. Lund agreed with Panetta's statement. When a residential customer puts solar panels on their house, they may use less kilowatt hours, but their demand does not go down. As the industry is moving, the first band-aid is to get the customer charge where it needs to be. Most importantly, moving to where the rate structures are changed, where charging a demand rate cost recovery and the kilowatt hour usage would all be on time of use. If the proper rate structure is set up, then there is not a "bad customer" on the system. With net metering, the distribution infrastructure portion that is being rolled into the kilowatt hour usage is losing. Everybody is subsidizing this. The best way to handle the changing industry is to evolve the rates. Mr. Panetta added that besides the distributed energy, the BPW also has a seasonality component, where houses are unoccupied the majority of the winter. They may still come down on the weekends and draw on the BPW system, but their usage is greatly diminished. Upkeep on the system is 24/7. Ms. Lund agreed. Ms. Lund stated that if the customer charge is not set properly, the year-round customers are subsidizing the seasonal customer. This is alone is reason enough to have the customer charges where they should be. Mr. Panetta stated that a lot more public education is needed because

some people view the ready to serve charge as a penalty instead of way to equalize the rates across the transient population and permanent population. Mr. Calaman stated that every municipality is different. For example, Rehoboth's ready to serve charge of their fixed costs is very low while their commodity rate is 2-4 times higher than the BPW's.

Robert Kennedy, rate payer, stated that he is not questioning the quantification of the revenue requirement or the allocation of costs to various customer classes. Mr. Kennedy questions what rate design Ms. Lund recommends to the Board to implement going forward. Specifically, is Ms. Lund recommending that customers be charged the same rate for similar utility service regardless of where they are within the BPW service area? Is Ms. Lund recommending doing away with the in-city and out-of-city differential and if not, what is the basis for continuing rate discrimination? Ms. Lund stated that right now there is a rate differential between inside and outside the city. It is about a 1.45. There is complete justification to do that for industry standards but is completely up to the Board whether the BPW does it or not. If a cost-of-service study is done, there is a component called the rate of return. The rate of return for an outside city customer is justifiably to be higher. Typically, it is associated with risk. Ms. Lund stated that she is aware that Delaware has a lot of rules and regulations, where there is not a lot of competition. Typically, lot sizes outside the city are larger which takes more distribution infrastructure. To decide if there is a multiplier outside the city is under the Board's control. The industry recognizes that there are reasons to do that. In general, the multiplier falls between 1.3 and 1.6. The BPW's 1.45 multiple is justified. Ms. Lund stated in her rate design, she did not do a cost-of-service study, so it follows the 1.5 multiplier. Ms. Lund reiterated that this is up to the Board to make the decision but there is absolute justification for what is being done.

Mr. Kennedy questioned if Ms. Lund was familiar with the utility rate principle of cost averaging within customer classes. Ms. Lund stated that she was, in general. Mr. Kennedy stated that in his experience that many rate designs average the cost to serve all of the customers within the service area. This comes up with a single rate to charge everyone. This was easier for everyone to understand and for the utility to administer. Ms. Lund stated that this was for commodity only. Those fixed costs, distribution costs, are charged by meter size, but the commodity rate is averaged. Mr. Kennedy agrees. Mr. Kennedy states that the Board has never articulated the basis for making the rate differential distinction, or at least he is unaware. Even though costs vary within the city, depending on how close you are to the wellfields or a transformer, everyone is still charged the same rate for service within the city. Mr. Kennedy does not understand using investor-owned utility concepts if the BPW rate averages, how the Board can continue to justify a rate for customers within its service area but resides outside the municipal boundaries. The risk premium in the past is fallacious. Ms. Lund stated that typically the lot sizes are larger outside the city therefore more distribution infrastructure. In general, within the city there is not a lot of growth. Ms. Lund stated that if it is a full retail customer outside the city, the utility is investing more money due to growth. If repairs are needed in the future, there is larger, longer infrastructure per customer (typically). Even using rate averaging, there is still justification as the differential is in the rate of return. The rate of return recoups the rate of return. Ms. Lund stated that in the cost-of-service study, the customer factor, is where the distribution means are allocated. This means that Ms. Lund may give inside the city a one and

outside the city a two. Lot sizes in the city may be 50'x100' where outside may be 100'x100'. Infrastructure on a larger lot is more. The justification is there, whether to continue the practice is up to the Board. Mr. Kennedy stated that he believes that there are a lot of new developments adjacent to the city that probably have the size if not smaller than some of the lots within the city. Mr. Kennedy continues to raise the issue and challenge the Board:

- Is it unjustly discriminatory?
- Is it fair to continue this practice?
- In the last cost of service study, five/six years ago, was there quantification of this factor of lot size to justify the rate?

Ms. Lund stated that there are a lot of educated assumptions that go into a cost-of-service study but in general, when she sees a 1.45 multiplier she is not alarmed. Ms. Lund stated that unless she is alarmed, she may not get into that detail. Ms. Lund stated that if a cost-of-service study was done and the multiplier should be 1.3 instead of 1.45, the incremental difference is not material enough to create a rate challenge.

Mr. Webb questioned if there are two developments on the same road, one in city and one out of city, if one annexes in, they get the lower rates and the one who does not annex into the city does not get the lower rates. Ms. Lund confirmed. Ms. Lund stated that all the outside city customers could band together and their own water plant. Mr. Kennedy stated that they cannot. Mr. Panetta stated that Mr. Kennedy is correct, but they could go to the county for wastewater. Mr. Kennedy disagrees. Mr. Panetta stated that the BPW is not withholding utilities that would impact the ability to develop. Mr. Kennedy asserted that that statement is factually and legally incorrect. Mr. Kennedy stated that it is his understanding that the wastewater service territories have been assigned based on agreements between Sussex County and municipalities. Electric and water customers take service under certificates of public convenience, and it is a necessity of the state public service commission. If a person wants to leave the service territory of the BPW, the property continues to be served by the BPW. There is none of the rate risk to the BPW for service within our service territory. Mr. Kennedy maintains that it is discriminatory to charge different rates to those customers within the BPW service territory and asks the Board to reconsider the current practice and make a uniform rate for all customers receiving the service within the service territory.

Mr. Ritzert, council member, questioned if there has been any effort to align residential accounts with occupancy versus the residential properties that are occupied and used by commercial based weekly rentals, possibly a separate rate. Mr. Calaman stated this would be a seasonal rental. Ms. Lund stated that it depends on how they would be classified. If the city views it as a commercial property, then it would go on the commercial rate. A rental in general, would use it like a residential customer would. It is up to the utility how they view the customer. The key is to charge based on homogenous usage. Does the Board feel that short- or long-term renters have usage patterns that are so different from residential customers? This can be looked at through the billing statistics.

Mr. Panetta stated that he understands what Mr. Kennedy was saying about service territories and acknowledges that. Mr. Panetta referred to Mr. Ritzert's questions and that some of the neighboring towns have had people tearing down houses and building mini apartment blocks that could accommodate 20 people. Ms. Lund stated that if the rate structure is set properly, it will not matter. If there are 20 people in the building, they are going to use more water. If one unit uses more than others it would throw off the average rate. In any rate class, there are some using less, and some have more. Looking at the bell curve, the rate should be made at the majority. If the bell curve shifts, then the rate will shift with it. Mr. Panetta agreed and stated that the Lewes does not have the prevalence that the neighboring towns have with this right now. It is a concern as we move forward as Lewes only has a handful properties like this as opposed to what is happening in neighboring towns. Mr. Panetta questioned if Mayor Becker agreed with that statement. Mayor Becker stated that he would agree at this point.

Mr. Ritzert commented that using lot sizes is a questionable metric to justify a higher rate. The homes built on those larger lots located outside the city are much larger than those constructed on smaller lots in the city. Ms. Lund agreed with the statement but stated that she does not care about that as long as the rate is set properly. If it is a larger home, the BPW would put a 1" meter instead of a 5/8" meter so they will pay more. A larger home will use 10,000 gallons instead of 6,000 the BPW will recoup that variable cost on the 10,000 usages.

Mr. Calaman presented a comparison table of neighboring town rates. The BPW standard is 5/8" meter versus Rehoboth's 1" meter. The BPW's current typical 4,000-gallon bill is \$21.40. With the proposed rate adjustments, it is \$25.40. Rehoboth is \$35.76 and Milton is \$27.33. Looking at the ready to serve charge, Rehoboth is lower, but they are charging \$6.30. These numbers were based on the town's websites. Mr. Calaman stated that it is two different methodologies. BPW has a lower ready to serve while the commodity is lower as opposed to Rehoboth which is the opposite. Rehoboth's methods can be seen more prevalent on the sewer side. Rehoboth is \$14 per thousand gallons versus what is being proposed for the BPW, \$6.01.

Mr. Calaman presented a comparison of all the utilities across the state that are a part of DEMEC. Lewes is towards the top with the lowest rates. With an increase of \$2.50 it still puts the BPW at the top four with the lowest rates within the state. This takes into account that no one changes their rates. This is a reaction to cost of service, cost of labor, and cost of goods. Other utilities are facing the same inflation issues.

President Lee asked Mr. Calaman to share this presentation with Nick Roth, Cape Gazette. President Lee stated that the Board will not be voting on this today and will discussed at a Board meeting.

ACTION: *Mr. Owen motioned to move to executive session. Mr. Nichols seconded the motion, which passed unanimously.*

5. EXECUTIVE SESSION:

Executive Session discussing employee and staff matters and a Strategic session involving legal advice or opinion from attorney-at-law where an open meeting could have adverse effect on the position of the public body, with respect to potential litigation and negotiation of contracts. 29 Del C. § 10004 (b)(4).
INFORMATION/DISCUSSION/ACTION INFORMATION/DISCUSSION/ACTION

6. RETURN TO OPEN SESSION

ACTION: *Mr. Owen motioned to adjourn executive session. Mr. Nichols seconded the motion, which passed unanimously.*

7. DISCUSSION AND ACTION ON THE EXECUTIVE ITEMS, IF NECESSARY.

None

8. ADJOURNMENT

ACTION: *Mr. Owen motioned to adjourn executive session. Mr. Nichols seconded the motion, which passed unanimously.*

President Lee adjourned the meeting at 3:37 pm.

Submitted Respectfully
Sharon Sexton
Executive Assistant