LEGISLATIVE, FINANCE AND ADMINISTRATION COMMITTEE

The Legislative, Finance, and Administration Committee meeting was held on December 10, 2012, at 6:00 p.m. with Chairman Lynn presiding. Members present were Mr. Anderson, Mr. Rushe, and Mr. Shevock. Mr. Hare was absent. Members of Council present were Council President Leary, Mr. Hutchison, and Mr. Bonar. Mayor Carey was also present.

AGENDA ADDITIONS/DELETIONS

By unanimous consent, the agenda was approved as presented.

Reduced Rates for All-Electric Homes in December, January, and February

During the Open Forum Segment of the April 9, 2012 City Council Meeting, Mr. Ted George, 77 Billings Drive, requested that members consider providing an electric rate discount during the months of December, January, and February for those customers with all-electric homes. During the Regular Council Meeting of July 9, 2012, City Council approved the recommendation of the Legislative, Finance, and Administration Committee that the proposal to reduce electric rates for all-electric homes be referred to staff for cost analysis and review.

During the City Council Meeting of September 24, 2012, Council approved the Legislative, Finance, and Administration Committee's September 10, 2012 recommendation that the proposal to reduce electric rates for all-electric homes be referred back to staff for a more in-depth analysis, and that staff determine the cost for the City to administer such a program (including whether an additional employee would be necessary) and the number of houses that would be involved, and provide a cost analysis to determine whether the program would be cost effective for the City based on the additional cost to the City versus the savings that would be realized by the customers.

Mr. Anderson stated that it had been several months since the item was originally proposed and that a refresher from the citizen who brought the matter before the Committee would be helpful.

Mr. Anderson moved to suspend the rules to allow Mr. George to speak prior to staff's presentation. The motion was seconded by Mr. Rushe and unanimously carried.

Mr. Ted George, 77 Billings Drive, reminded members that in June 2012 he presented a proposal relating to a policy that was in effect in the City of Dover for 14 years. He stated that when his home was built in 1972, Mr. Conrad Hebert, who was the City's Chief Engineer, suggested the use of a heat pump or strip heat to heat his home because a 20% discount on the electric rate was being offered by the City and the 6.5 cents per kilowatt charge would be reduced to 5.0 cents during the months of December, January and February. Mr. George indicated that he was a newlywed at that time with children and working full time, and the rate reduction was the deciding factor for the heating method he chose. He advised members that in the 1980s the City's police force was expanded and the electric rate reduction was discontinued to help support the Police Department's staffing needs. Mr. George stated that as a result of Council's delay in addressing this issue due to their desire for further review, the month of December was now almost over; however, he proposed a rate reduction for the 88 days remaining through February, the coldest time of the year, so that people could heat their homes to a reasonably comfortable level without paying a great deal of money for electricity. *(City Clerk's Office Note: City records indicate that Mr. Hebert was the Power Plant Superintendent)*

In response to Mr. Bonar's inquiry regarding the potential impact of the proposed policy on the average residential user, Mr. Lynn indicated that Mr. Scott Koenig, City Manager, would be addressing this. Mr. George estimated the monthly savings to be $14,000 - $18,000 collectively for residents who have all-electric homes.

Mr. Koenig reviewed a memo dated December 4, 2012 entitled "Reduced Rates for All-Electric Homes in December, January, and February." He stated that, for the purposes of analysis, focus was placed on years 2002/2003, 2003/2004 and 2004/2005, which represented the last years of the winter/summer rate schedules. Mr. Koenig explained that if the summer rate of 0.0924 were considered the base rate, then the winter < 1,000 KW rate of 0.0880 represented a 4.7619% rate reduction and the winter >1,000 KW rate of 0.0808 represented a 12.5541% rate reduction. Mr. Koenig explained that if these percentage reductions were applied to the usage profile for an electric user who is in the system (Attachment #2 to the memo), this sample customer would receive an estimated savings of $36.60 per month during the months of December, January, and February. This would represent a composite reduction of approximately 9.79% on each monthly bill. He noted that if this past reduction were applied as calculated, the annual impact of the rate adjustment would be approximately $109.80 per typical all-electric household, assuming a 10% rate of reduction, or approximately $220 annualized for a 20% reduction.

Mr. Koenig reiterated that the winter/summer rate schedules were abandoned in Fiscal Year 2005/2006 and, from that point forward, all energy costs gravitated toward a blended cost. He noted that the City no longer distinguishes between winter and summer rates in its tariff and residential customers purchase energy only. He noted that there is no demand charge associated with any of the residential customers. Mr. Koenig stated that the most recent rate study did not afford for this type of rate reduction for all-electric homes, so the impact on other customers had not been calculated; however, all revenue lost from a rate reduction must be made up from other residential customers; otherwise, the City's revenue projections will be compromised. He indicated that if the City were to credit back $15,000 - $18,000 of revenue for all-electric customers, customers who do not have all-electric homes would be penalized. Mr. Koenig stated that he contacted the Delaware Municipal Electric Cooperative (DEMEC) to determine if other utilities in this area provided a reduction program and was advised that they had no knowledge of any such programs at present, although Smyrna had a similar program at one time. Mr. Koenig stated that, based on this information, he recommended against further consideration of the request for reduced rates for all-electric homes.

In response to Mr. Hare regarding how such a program would be implemented if approved, Mr. Koenig suggested that a pilot credit program could be considered. He did not feel the City should send staff to individual homes to determine their all-electric status due to potential conflicts and recommended that homeowners obtain an independent verification of their all-electric status by a third party. He indicated that this verification should include notarized correspondence indicating the home had been inspected and the all-electric condition had been verified by a contractor licensed to conduct business within the City of Dover and that a verification form be submitted to the City of Dover by September 30th of each year. Mr. Koenig stated that although the differential between

winter and summer rates was an approximate 10% composite, he would recommend that a 5% credit be issued at the end of the three (3) month cycle on the bill to simplify the credit adjustment. He recommended that such a program be subject to annual review by staff and Council. Mr. Koenig stated that he did not support implementing such a program as he felt that it would skew the current rate structure and, although all-electric homes were being promoted 40 years ago, the City was no longer in the power production business on a daily basis. He explained that the City has an energy production facility; however, it is essentially a peaking plant in the Pennsylvania, Jersey, Maryland (PJM) Power Pool and runs only when market conditions warrant the facility to run. Mr. Koenig advised members that the City purchases energy from the grid at predetermined hedge prices and the proposed program has the potential to create inequity in the billing structure. He did not believe that additional staff would be needed to administer the program; however, he explained that the program would create additional burdens on current staff.

Responding to Mr. Shevock regarding blended costs, Mr. Koenig clarified that this is a financial term associated with power rates. He explained that there were once summer costs and winter costs; however, when the City went to the hedge program and began purchasing blocks of energy, usage was not broken down by season but considered as a whole, thus producing a blended rate. Mr. Koenig noted that there is no compensation for fluctuations in usage because hedge purchasing removes the spikes in the energy profile.

Noting that the blended rate eliminates seasonal spikes, Mr. Anderson expressed his concern that customers still experience usage spikes since bills are higher in winter when usage is higher. Mr. Koenig noted that these higher bills are based on usage rather than rate. He explained that the City provided information regarding consumption and hedge purchases made by The Energy Authority (TEA) to Burns & McDonnell for rate analysis and that the City attempts to purchase power in blocks so that the hedge program mirrors consumption.

Mr. Anderson questioned the percentage of reduction used to determine the estimated revenue reduction of $15,000-$36,000. Responding, Mr. Koenig stated that based on the original assumption of 200 houses receiving a 10% reduction, the loss of revenue would be approximately $20,000 and a pilot program granting a 5% reduction would result in a $10,000-$11,000 revenue decrease. He noted that he could not be sure of the impact without knowing the exact number of customers involved. If the number of customers was significantly higher (such as 500 homes) the loss figures would change significantly.

In response to Mr. Anderson, Mr. Koenig stated that he believed that the program would apply only to owner-occupied, single-family homes, not apartment complexes or rental units.

Mr. Bonar noted that he is on a fixed income; however, he does not live in an all-electric home and was concerned that implementing the proposed reduction program would create a burden on the rest of the City's rate payers. He indicated that costs for all-electric homes are slightly higher than

others; however, he pays approximately $600 to heat his home using oil, and oil companies are not offering reductions. He empathized with those on fixed incomes but reminded members that the City of Dover has the third lowest electric rates in the State.

Mr. Lynn expressed his opinion that the City had a promissory obligation to individuals who were encouraged to renovate or build all-electric homes in the early 1970s based on the promises made by the City of Dover. He indicated that he was sympathetic to those who brought this matter forward and thanked Mr. Koenig for the compromise he presented.

Responding to Mr. George regarding whether the City's budget could support the $14,000 discount for the many seniors who have all-electric homes, Mr. Koenig stated that this question must be answered by Council, noting that it would impact the budget.

Councilman Bonar stated that he, Councilman Lynn, and Councilman Anderson have the highest percentage of constituents in their districts that are either elderly or on fixed incomes and have electric homes or have limited means; therefore, he noted that it would be difficult for him not to support the proposal. However, he felt moving forward could result in the rest of the residential rate payers potentially demanding similar discounts, which would "open a Pandora's Box."

Mr. George noted that the policy had been in place previously to which Mr. Bonar responded that times were different now.

Staff recommended against implementing a program of reduced rates for all-electric homes in December, January, and February for the following reasons: 1) Such a program would skew the current rate structure; 2) the City is no longer in the power production business on a daily basis; the energy production facility is essentially a peaking plant in the Pennsylvania, Jersey, Maryland (PJM) Power Pool and runs only when market conditions warrant the facility to run; 3) the City purchases energy from the grid at predetermined hedge prices and the proposed program has the potential to create inequity in the billing structure; 4) Although additional staff would not be needed to administer the program; the program would create additional burdens on current staff. Mr. Koenig stated that, based on this information, he recommended against further consideration of the request for reduced rates for all-electric homes.

Mr. Anderson moved to recommend that the matter be referred to the Utility Committee. The motion failed for lack of a second.

Mr. Shevock moved to recommend approval of staff's recommendation against implementing a program of reduced rates for all-electric homes in December, January, and February, seconded by Mr. Rushe. The motion failed by a vote of two (2) yes (Rushe and Shevock) and two (2) no (Anderson and Lynn).

Mr. Lynn stated that the matter would be considered by City Council during their Regular Meeting of January 14, 2013 with no recommendation from the Committee.

Review of City of Dover Identity Theft Prevention Policy

Mr. Scott Koenig, City Manager, advised members that the City of Dover Privacy Committee held their annual meeting on November 14, 2012 to review the policy. There were no incidents of identity theft reported by City of Dover customers during the last year; therefore, a recommendation was made to change the frequency of meetings to "... as necessary, if any significant issues of identity theft arise" rather than meeting annually. This change is noted in Part 9 – Administration. No other changes were recommended and the committee approved the Identity Theft Prevention Policy with the above-noted change.

Mr. Anderson expressed concern regarding the proposed amendment, noting that identity theft was skyrocketing and that "as necessary could mean never." Mr. Koenig stated that if any incidents were to arise, the Committee would certainly meet to address them.

Mr. Shevock moved to recommend acceptance of the report and that the Identity Theft Prevention Policy be amended to change the frequency of meetings to "as necessary, if any significant issues of identity theft arise," seconded by Mr. Rushe. The motion carried by a vote of three (3) yes (Lynn, Rushe, and Shevock), one (1) no (Anderson), and one (1) absent (Hare).

Mr. Rushe moved for adjournment, seconded by Mr. Shevock and unanimously carried.

Meeting adjourned at 6:28 p.m.

Sean M. Lynn
Chairman

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