

PUBLIC WORKS COMMISSION
MEETING OF WEDNESDAY, MARCH 19, 2014
8:30 A.M.

Present: Michael G. Lallier, Chairman
Wick Smith, Vice Chairman
Lynne B. Greene, Secretary
Darsweil L. Rogers, Treasurer

Others Present: Steve Blanchard, CEO/General Manager
Billy King, County Liaison
Karen McDonald, City Attorney
Kristoff Bauer, Deputy City Manager
Jay Reinstein, Assistant City Manager
PWC Staff
Media

Absent: James Arp, Council Liaison
John Ellis, Hope Mills Liaison

Chairman Lallier called the meeting of March 19, 2014 to order.

Approval of Agenda.

Upon motion by Commissioner Greene, seconded by Commissioner Rogers, the agenda was unanimously approved.

Consent Items

Upon motion by Commissioner Rogers, seconded by Commissioner Greene, the following Consent Items were unanimously approved:

- A. Minutes of meeting of February 26, 2014.
- B. Bid recommendation to award bid for purchase of two (2) 500 HP Centrifugal Blowers for the Rockfish Creek Water Reclamation Facility Aeration Improvements to Houston Service Industries, Inc., Houston, TX, lowest bidder in the total amount of \$362,858.00 and forward to City Council for approval. (This is a budgeted item – FY 2014 CIP WS 53- Rockfish Creek WRF Aeration System Improvements -

\$2,600,000. The budgeted amount includes construction costs in addition to equipment purchases). Bids were received February 13, 2014 as follows:

<u>Bidders</u>	<u>Total Cost</u>
Houston Service Industries, Inc., Houston, TX	\$362,858.00
Gardner Denver Nash, Charleroi, PA	\$470,513.46

Consider changes to the PWC Electric Rate Schedules (PWC Strategic Goal #1)

Steve Blanchard, CEO/General Manager and Dwight Miller, Chief Finance Officer presented this item. He stated the recommendations being presented for Commission consideration today come with a lot of feedback from the Commissioners.

Dwight Miller stated staff appreciates the direction and input from the Commission in moving forward with the rate review. He stated in reviewing the electric rates, staff wanted to continue to meet the Commission's strategic planning goal of the lowest responsible rates, most financially sound utility. Mr. Miller stated in looking at rates, staff reviewed numerous scenarios. He stated during the rate review, the cost of service model is reviewed and this is a determination of how we allocate specific cost to the different classes and groups of customers. The review of the cost of service model revealed a need for adjustments. Mr. Miller stated in anticipation of increased power cost due to the new power supply agreement, staff has been reviewing the long range plans for over six years. He stated the three basic components in the rate structure are the demand, energy rate structure and fuel adjustment. Mr. Miller commented the demand component is the fixed charge, which is about fifty percent of our bill, with the other fifty percent being the energy component. He also stated fuel adjustment is another piece of the rate structure, which PWC has not utilized for some time; however, staff will be recommending reinstating the fuel adjustment in July. Mr. Miller stated the fuel adjustment is a balancing with Progress Energy for some of the unknown factors. The Time of Use rate structure was also reviewed. Mr. Miller stated PWC has some time of use rates for our larger customers. He stated once the new AMI meters are installed this rate will become available to all customers.

Mr. Miller stated over the next two years, PWC is looking at a \$45 million increase in our rate revenue requirements. He stated the majority of the \$45 million is a result of increased power supply costs. To help mitigate this \$45 million requirement, PWC will utilize \$25.4 million from the rate stabilization fund. Mr. Miller stated during the current fiscal year, PWC will use over \$11 million from the rate stabilization fund to supplement the revenues needed for this fiscal year. He stated PWC also wants to stabilize the operating reserves. Mr. Miller stated the target is to have 105 days in reserves, with the minimum being 90 days and the maximum 120 days.

Mr. Miller provided a rate comparison with other comparable utilities. PWC's residential rates remain among the lowest of the four electric utility providers in the area. He reviewed the impact of the proposed changes to the electric rate schedules. For comparative purposes the average residential customer using 1,500 kWh would see an increase of approximately \$3.70 a month on their utility bill beginning May 1, 2014. Depending on customer usage the amounts will vary. Mr. Miller also reviewed the increases for commercial and industrial customers. In conclusion, Mr. Miller stated staff requests the Commission consider approving changes to the electric rate schedules as presented to be effective on all bills rendered on and after May 1, 2014 and 2015. Mr. Miller also reviewed additional recommendations from staff regarding approval of the rate schedule for additional meters on residential properties, effective May 1, 2014, closing the Church Rate to new customers effective March 19, 2014; Fuel Adjustment reconciliation effective July 1, 2014; adding "Applicable NC Sales Tax will apply" to Electric Rate Schedules effective May 1, 2014 and changing Ammonia Nitrogen Surcharge to Total Kjeldhal Nitrogen Surcharge effective July 1, 2014. Discussion ensued. Mr. Blanchard and Mr. Miller responded to questions from the Commission regarding proposed changes to the rate schedules.

Commissioner Rogers requested in the future rate presentations to include the percentage change. Mr. Miller commented beginning May 1, 2014, the average residential customer using 1,000 kWh would see at 2.6% increase and beginning May 1, 2015, the percentage increase would be 3.9% for the residential customer. Commissioner Smith noted it is unfortunate to have a rate increase, however, two years ago in the power supply contract, PWC went from spending \$100 million a year on power cost to about \$150 million a year on power, which is an increase for PWC in the cost of purchasing power from Duke Energy Progress of about 50% . He also noted there has been no electric rate increase in two years.

Chairman Lallier commented on the general and administrative expenses (G&A) and other expenses that we have direct control over and asked staff to highlight these expenses relative to our peer groups. Mr. Blanchard stated PWC did reduce the anticipated increase in the operating costs by five percent in the rate model. He stated all of PWC's operating cost (G&A, customer service, etc) is typically below our peer group in the southeast and around the country according to data received from the American Public Power Survey (APPA) survey. Chairman Lallier also inquired relative to PWC's current contract with Duke Progress Energy, is PWC protected against negligence on the part of Duke Progress Energy (i.e. coal ash cleanup) in our costs of having to absorb the various costs. Mr. Blanchard stated to some degree PWC is protected, however if cleanup becomes a regulation, all rate payers will be affected.

Chairman Lallier stated no one likes to consider rate increases, but it's a fact of life and what the Commission has historically tried to do is minimize the impact on the rate payer and have it be a leveling affect so people can budget it, particularly for those on fixed incomes. He said the Commission is sensitive to the customer and their ability to pay the utility bills.

Following considerable discussion, upon motion by Commissioner Smith, seconded by Commissioner Rogers, the Commission unanimously approved the following:

- Rate changes as recommended by staff with Rate Schedules reflecting Customer Impacts as presented: Effective May 1, 2014 and 2015. (See current/proposed rates on Page ____ of Minutes)
- Rate Schedule for Additional meters on Residential Properties: Effective May 1, 2014. (See Residential Service Additional Meter Rate Schedule on Page ____ of Minutes)
- Closing the Church Rate to New Customers: Effective March 19, 2014.
- Fuel Adjustment reconciliation: Effective July 1, 2014. (See Fuel Adjustment reconciliation on page ____ of Minutes)
- Adding "Applicable NC Sales Tax will apply" to Electric Rate Schedules: Effective May 1, 2014.
- Change Ammonia Nitrogen Surcharge to Total Kjeldhal Nitrogen Surcharge: Effective July 1, 2014.

General Manager Report

⇒ PWC received the American Heart Association “Gold Fit-Friendly Worksite” award. PWC has been the recipient of this award four times in the past. As a Gold level award recipient, PWC recognizes the importance of a healthy workplace for their employees and have taken important steps to create a culture of wellness by providing support to employees.

Ike Copeland, Risk Manager briefly updated the Commission on PWC’s wellness program and thanked the Commission and Management for their continued support in promoting a healthy workplace for PWC employees.

⇒ For the first time in PWC’s history, PWC employees achieved the Three Million Hours with no lost time injuries on March 11, 2014. PWC is planning a celebration in the near future.

⇒ Attended the APPA Legislative Rally in Washington on March 10th-13th. Commissioner Wick Smith also attended this event as a member of the APPA Policy Makers Council. Met with members of our congressional delegation and PWC has their support on various issues.

Commissioner Smith commented some of the issues discussed dealt with (1) tax exempt financing for municipal bonds, (2) carbon capture and sequestration requirements for coal plants and (3) grid security.

Reports and Information: The Commission acknowledges receipt of the following reports and information:

- A. Monthly Incident Summary for February 2014
- B. Personnel Report for February 2014
- C. Position Vacancies
- D. Approved N.C. Department of Transportation Encroachment Agreement(s):
 - ⇒ Encr. #17748 – water main installation – SR-3569 (Old Raeford Road)
 - ⇒ Encr. #17783 – sewer main installation -US 401 (Raeford Road)

- ⇒ Encr. #17464 – installation of LED lighting – NC-210 (Cedar Creek Road (from Intersection with I-95, Exit 49
- E. Approved Utility Extension Agreement(s):
 - ⇒ Birchwood Farms, Inc. – water and sewer utilities to serve Cypress Lakes Village, Section 5
- F. Actions by City Council during meeting of February 24, 2014 related to PWC:
 - ⇒ Tabled item on PWC Budget Guidelines to the March 3, 2014 Work Session and to place the item on the March 24, 2014 regular agenda for formal vote.
- H. Actions by City Council during meeting of February 24, 2014 related to PWC:
 - ⇒ Discussion on PWC Budget Guidelines. Item to be added to the March 31st budget meeting.

Comments:

- ⇒ Commissioner Smith: Need to schedule as soon as possible a presentation on our Purchasing Program to City Council. Steve Blanchard commended this will be scheduled for a Council Work Session.
- ⇒ County Liaison King: County Commissioners met on Monday on the contaminated water issue on Bullard Circle. At some point in the future, there will probably be a discussion regarding PWC providing water to this area.

Chairman Lallier stated PWC takes a proactive approach regarding contaminated water and has a policy in place to address this issue. PWC will work collectively with the County and City on this matter. Steve Blanchard stated PWC's Water/Sewer Engineering Department is already putting together an estimate on the cost to install utilities to this area.

- ⇒ Chairman Lallier: Received a call from a member of our legislative delegation regarding the meeting they had with City Council. Chairman Lallier thanked Kristoff Bauer, Deputy City Manager for his positive public comments regarding the working relationship between PWC and the City.

There being no further business, upon motion by Commissioner Greene, seconded by Commissioner Rogers and unanimously approved, the meeting was adjourned at 9:27 a.m.