

**PERU UTILITIES
MINUTES OF THE PERU UTILITIES SERVICE BOARD MEETING OF
JULY 13, 2016**

The Peru Utilities Service Board held a meeting at the Peru office at 335 East Canal Street, Peru, Indiana, on Wednesday, July 13, 2016. The meeting was called to order by Mr. Akers at 4:00 p.m. pursuant to notice as required by law. The following Board members were present: S. Akers, M. Costin, G. Ward, and J. Edwards. Others present: P. Roberts-City Attorney, J. Pandey, L. Starkey, B. Tillett, and B. Yankey-Peru Tribune.

1.) APPROVAL OF BOARD MINUTES OF JUNE 29, 2016:

Mr. Ward moved to accept the Board minutes of June 29, 2016, meeting as mailed. The motion was seconded by Mrs. Edwards. The motion carried.

2.) PAYMENT OF CLAIMS:

A motion was made by Ms. Costin to approve the claims as presented, seconded by Mr. Ward. The motion carried.

3.) NEXT REGULAR MEETING:

The next regular meeting will be held Wednesday, July 27, 2016, at 4:00 p.m. in the Utility Service Boardroom.

4.) AMEND THE AGENDA:

Mr. Akers asked for the Board’s permission to amend the agenda and add Item “B”, Adoption of the PURPA Implementation Plan.

Mr. Ward made the motion to amend the agenda and add Item “B”, Adoption of the PURPA Implementation Plan. The motion was seconded by Ms. Costin, and the motion carried.

5.) OLD BUSINESS: None

6.) NEW BUSINESS:

7.) A.) APPROVAL OF BAD-DEBT WRITE-OFFS, JANUARY 1, 2016 THROUGH MARCH 31, 2016:

	Peru	Grissom	Total
Electric	\$21,161.44	\$ -	\$21,161.44
Water	1,924.86	1,605.60	3,530.46
Wastewater	706.34	-	706.34
Stormwater	33.20	-	33.20
Trash	99.60	-	99.60
Total	\$23,925.44	\$ 1,605.60	\$25,531.04

The bad debt write-offs January 1, 2016 – March 31, 2016, were reviewed and Mr. Pandey requested permission to write-off the delinquent accounts. The write-off represents 0.39% of our January through March 2016, operating revenue,

excluding wastewater, stormwater, and trash. There are 83 accounts to be written off totaling \$25,531.04.

It was noted that last year the same time period the write-off represented 0.66% of the January through March 2015, operating revenue, which included 104 delinquent accounts written off totaling \$44,982.56. Mr. Pandy said we are moving in the right direction; staff is working diligently to reduce the bad debt delinquencies.

Mr. Ward noted that the Board had discussed sharing customer account information with REMC at a previous meeting, in order to avoid the same pitfall that they have with some of their customers. He said the Board had determined at that time we could; he questioned if the issue is still being pursued. There was much discussion about what the Board had previously decided and Mrs. Starkey stated that we can share information with the city, but not with REMC. It was noted that because we are a municipal we are required to provide customer account information according to the Freedom of Information Act. We had created Policy 1-2015, according to the Access to Public Records Act (IC 5-14-3). Policy 1-2015, which states that customer information shall be classified as Protected, and may not be disclosed to a third party without the customer's written approval. Any inquiries would have to come to our office to pick up a "Request for Disclosure of Public Utility Records" and complete it. We would then notify our customer who had inquired about them.

Mr. Ward inquired how our percentage of bad debt write-offs compared with surrounding municipals and IMPA members. Mr. Pandy said he did not know the comparisons between Indiana municipals, but felt more comfortable with a lower number. He will get IMPA's member information and get back with the Board.

Mr. Ward made a motion to grant permission to write-off the delinquent accounts January through March 2016, for \$25,531.04. Mrs. Edwards seconded the motion and the motion carried unanimously.

B.) ADOPTION OF PURPA IMPLEMENTATION PLAN:

Mr. Pandy gave an overview of the PURPA Plan and noted that by adopting the PURPA PLAN, IMPA becomes our negotiating agent and will negotiate and purchase all energy and capacity offered by Qualifying Facilities within our service area. He felt it a common sense approach since we already have a fifty-year contract with IMPA for our power supply. IMPA will then be the responsible party to act on our behalf to evaluate and price power from anyone that wants to co-generate within our service territory.

Mr. Pandy felt that Logan Municipal Utilities recent decision to turn to NextERA Energy for purchased power could have been better handled had they become an IMPA member. He noted that IMPA is very ambitious and working hard for its members.

Mr. Ward made a motion to approve the PURPA Implementation Plan and delegate Mr. Pandy authorization to sign the document. Mrs. Edwards seconded the motion. The motion carried.

8.) CITY ATTORNEY'S UPDATE:

Mr. Roberts stated that he had been working with Mrs. Starkey creating a new policy for a Materiality procedure for the Board to consider. Recently the city had adopted policies for Materiality along with a Resolution for Internal Controls. Because the State Board of Accounts is requiring cities/towns to have established internal controls, it also applies to Peru Utilities. The new policy will establish reporting to the Indiana State Board of Accounts as to erroneous or irregular material variance, losses, shortage or thefts. It is designed to keep a reporting and investigation of any misappropriation. It will also establish a \$500 threshold for cash assets and a \$2,500 for property assets. He noted that daily adjustments made to customer bills are not considered misappropriations of funds.

Mr. Roberts said when reading the State Board of Accounts directive, it is not designed specifically for municipally owned utilities nor is it listed in the title, but it does apply to government entities that can sue or be sued. He said that our policy will differ from the civil city, but some of it will be the same type of language.

9.) MANAGER'S REPORT:

NOTICE OF TORT CLAIM:

Mr. Pandy updated the Board on the status of the legal action taken against Miami County Commissions pertaining to the water main break incident on January 28, 2016, for damages and loss suffered. He noted that Mr. Berkshire the attorney hired to handle this matter for the utilities had written a Notice of Tort within the appropriate time period and sent it to the Miami County Commissioners seeking compensation of \$105,000 resulting from the happening.

JUNE IMPA POWER BILL:

Mr. Pandy briefed the Board that June's IMPA power bill is \$1.9 million. He continues to monitor the IMPA bill because it is 75% of our electric expenses. He noted that in June 2016, our demand increased 6.3% over 2015, but our energy increased only 3.8% over the last year. Our load factor for June is 62.46% which is lower than last year's 63.99%. Our power bill increased from last year by \$125,615, 53% of the increase is due to increase kilowatt hours; 47% is due to the higher cost associated with a lower load factor.

Mr. Akers inquired how Mr. Pandy recognized that fact. Mr. Pandy explained that it is associated with high load factors and that the other driver is the weather. Customers will be using their air conditioners more often during hot weather conditions. He said that we could offer a Time of Use Rate for residential users; which would help customers save money by offering a discounted rate when demand

is low, during off-peak hours. He noted that there are manufacturing businesses that will alter their hours to reduce their expenses by shifting their manufacturing to off-peak hours of the day. Mr. Akers asked if Peru Utilities offered a Time of Use Rate. Mr. Pandy stated that we had an Economic Development Rider in place, but not a Time of Use Rate. He noted that the national average load factor is 65%. Mrs. Edwards inquired what the impact would be if a lot of customer's air conditioners were not functioning. Mr. Pandy explained that the air conditioning load is the largest load of all the household electric consumption uses and the less air conditioning being used would definitely impact our sales.

EMPA REBATE PROGRAM:

Mr. Pandy noted that we now provide IMPA rebates to customers who upgrade to Energy Star certified (high efficiency) appliances. He stated that now more than ever people want to save energy, to lower their energy costs. Mr. Akers inquired if we had evaluated our largest users. Mr. Pandy has a list of our top twenty customers, but as of yet has no comparison year to year, but he felt that the top twenty customers are probably about the same usage. He noted that Smithfield Foods plans to construct another production line, which will grow their load. Mr. Pandy will present an analysis to the Board next month.

IMPA CONTRIBUTIONS:

Mr. Pandy had spoken with Mr. Raj Rao, President of IMPA, regarding donations/contributions and was informed that IMPA donates between \$10,000-\$15,000 annual from their annual budget of \$445,000,000. It is spread among the sixty systems and averages \$250 per utility system, per year. IMPA contributes \$50 to \$100 at a time to a member, but never more than \$500 at one time, to one system. Because of the concern about the effect of a donation increases a customer's bill he calculated the math and found out that an average customer uses 750 kWh/month, at the power cost of .75¢/kwh hour; their power bill will be \$56.25 to IMPA. It equates to .0003 percent of the customer's bill, which is less than 2¢ per month. IMPA does not list contributions as a line item in their budget since it is small dollars. Mr. Pandy noted that on the advice of counsel he is convinced that Peru Utilities cannot make contributions and that IMPA can only contribute a small amount. He said that he is done with inquiring about the subject of contributions. Mrs. Costin thanked Mr. Pandy for taking the time to research the matter so thoroughly and reporting his findings back to the Board.

WATER RATE - PHASE II STATUS:

Mr. Pandy gave the Board an update about the Phase II Water Rate adjustment, noting that in 2014 we had compiled a list of water capital improvement projects estimated at \$3,850,154. The costs of the two projects that needed to be addressed the soonest: the 16" line under Peru High School (\$432,460) and the river crossings at Wayne Street and Broadway (\$900,000). He said that the Peru Utility Service Board and Peru Common Council had approved the Phase I Rates in February 2015. It was

noted that although preliminary actions were set in motion to approve the Phase II Rate adjustment, for whatever reason it was never followed through. Mr. Pandy said that he is in favor of getting started with funding the projects with the State Revolving Fund (SRF) to borrow the needed \$4,000,000 to start the process of Phase II Water Rate adjustment. The Phase II rate adjustment will equate to an additional \$3 per month, per customer, for an average \$17 per month bill. Mr. Pandy will make a recommendation to the Board at the next meeting to get the process started with the Phase II Water Rate adjustment. It was noted that a new Water Rate Study is not recommended since the Phase I Rate adjustment was part of the initial Water Rate Study approved in 2015.

There was a discussion and Mr. Ward noted that the current Phase II Cost of Service numbers should be closely reviewed to ensure that the \$4,000,000 is enough funding to complete all the needed projects. Mr. Beisiegel and Mr. Kline will be talking with our engineering consultants to get a ballpark estimate as to what engineering costs will be; engineering costs are usually 10% of the total project cost. Mr. Pandy noted that in order to borrow more than the \$4,000,000 a new Cost of Service Study would have to be calculated, at an additional cost of \$40,000. The Board discussed how much money should be borrowed since the rate study being used was computed two years ago. Mr. Pandy felt it best to use the current Cost of Service Study and get started with the process of the Phase II Rate adjustment.

It noted that the Phase I Water Rate adjustment covered only our day-to-day operating expenses. Phase II will cover the debt service to borrow the \$4,000,000. It was pointed out that our Payment In Lieu of Taxes (PILT) from 2008 was \$60,000 annually until 2014; after 2014 it had increased to \$238,000 annually. Last month our net margins in Peru Water were a negative (\$115,000), for the entire year it calculates to be a negative net margin of (\$130,000). Mrs. Starkey noted that it had been fourteen years since our previous Water Rate Case and that the evaluation of assets had changed, which increased the PILT causing a majority of the deficit.

Ms. Costin inquired as to what alerted Mr. Pandy in regards to the Phase II Water Rate adjustment not being implemented. He said that while reviewing a list of water projects he had contacted Mr. Beisiegel to get a status on the projects; he found out that none of the projects were completed because we did not have the money. In checking our files we found out that the Phase II had not gotten done, even though we had announced to the newspaper that we were going to do it. We are going to pick up the pieces and start over. Phase II according to Umbaugh would be another \$2.92/month. By State average, we compare way low. Mr. Ward's questioned if the \$3 increase would generate the \$4,000,000. Mr. Pandy said that it will generate the debt-service for \$4,000,000 for a twenty-year bond issue, which Umbaugh had been calculated.

POWER PLANT:

Mr. Pandey had not come up with any new solutions for the power plant. He had discussed the matter with Mr. Raj Rao, President IMPA, to find out if IMPA had any interest in our power plant as a gas turbine peaking unit; Mr. Rao had noted that the next generation source would probably be a percentage of a gas-fired combined cycle plant and that IMPA did not have a use for our power plant. Mr. Pandey explained that old power plants operated at about 34% efficiency on average; 65% of the heat escaped up the smokestack or out into the river. Combined cycle unit operates at 60% efficiency; only 40% is lost to the environment. Combined cycle units are part of the EPA's Clean Power Plan to reduce carbon pollution. Mr. Pandey will move ahead with the plan to mitigate the asbestos in the power plant and dispose of it. It will be costly to dispose of the bad chemicals, along with the asbestos and to dispose of the power plant; but it costs money to keep the power plant maintained in its current situation.

MIAMI COUNTY EDA GROUNDBREAKING:

Miami County Economic Development is constructing a new shell building at the Grissom Aeroplex complex to attract new business. Mr. Pandey will be attending the groundbreaking for the new building on Wednesday, July 20th.

10.) ADJOURNMENT:

There being no further business to bring before the Board, Mr. Ward made a motion to adjourn. Ms. Costin seconded the motion. The meeting adjourned by unanimous consent.

Geoff Ward, Secretary Peru Utilities Service Board