

3. Functionalization of Costs

Delivery of electricity consists of many components that bring electricity from the power supply facilities to the communities and eventually into customer facilities. The facilities consist of four major components: transmission, distribution, customer-related services, and administration. Following are general descriptions of each of these facilities and the sub-breakdowns within each category.

Transmission

The transmission system is comprised of four types of subsystems that operate together:

- 1) Backbone and inter-tie transmission facilities are the network of high voltage facilities through which a utility's major production sources are integrated.
- 2) Generation set-up facilities are the substations through which power is transformed from a utility's generation voltages to its various transmission voltages.
- 3) Sub-transmission plant consists of lower voltage facilities to transfer electric energy from convenient points on a utility's backbone system to its distribution system.
- 4) Radial transmission facilities are those that are not networked with other transmission lines but are used to serve specific loads directly.

Operation of the transmission system also consists of providing certain services that ensure a stable supply of power. These services are typically referred to as ancillary services. The Federal Energy Regulatory Commission (FERC) has defined six ancillary service charges for the use of transmission facilities. For Selma (Electric), these charges will be passed-through charges by the control area operator. Ancillary services consist of the following:

- **Mandatory Ancillary Service Charges:**
 - Reactive Supply and Voltage Control
 - Regulation and Frequency Response Service
 - Energy Imbalance Charges
 - Operating Reserves Spinning
 - Operating Reserves Supplemental
 - Reactive Power Supply
 - Power losses from use of transmission system

Terminology of Cost of Service

FUNCTIONALIZATION – Cost data arranged by functional category (e.g. power supply, transmission, distribution)

CLASSIFICATION – Assignment of functionalized costs to cost components (e.g. demand, energy and customer related).

ALLOCATION – Allocating classified costs to each class of service based on each class's contribution to that specific cost component.

DEMAND COSTS – Costs that vary with the maximum or peak usage. Measured in kilowatts (kW)

ENERGY COSTS – Costs that vary over an extended period of time. Measured in kilowatt-hours (kWh)

CUSTOMER COSTS – Costs that vary with the number of customers on the system, e.g. metering costs.

DIRECT ASSIGNMENT – Costs identified as belonging to a specific customer or group of customers.

Distribution

The distribution facilities connect the customer with the transmission grid to provide the customer with access to the electrical power that has been generated and transmitted. The distribution plant includes substations, primary and secondary conductors, poles, and line transformers that are jointly used and in the public right-of-way.

Substations typically separate the distribution plant from the transmission system. The substation power transformer “steps down” the voltage to a level that is more practical to install on and under city streets.

Distribution circuits are divided into primary and secondary voltages with the primary voltages usually ranging between 35 kV and 4 kV and the secondary below 4 kV.

Distribution Customer Types

Sub-transmission customers are served directly from the substation feeder and bypass both the secondary and primary distribution lines. The charges for this type of customer should reflect the cost of the substation and not include the cost of primary or secondary line charges.

Primary customers are typically referred to as customers who have purchased, owned, and maintained their own transformers that convert the voltage to the secondary voltage level. The rates for these customers should reflect the cost of substations and the cost of primary distribution lines and not include the cost of secondary line extensions.

Secondary customers have the services provided by the utilities directly into their facilities. The utility provides the customer with the transformer and the connection on the customers’ facilities.

Customer-Related Services

Certain administrative-type services are necessary to ensure customers are provided service connections and disconnections in a timely manner and the facilities are in place to read meters and bill for customer usages. These services typically consist of the following components:

- Customer Services – The cost of providing personnel to assist customers with questions and dispatch personnel to connect and disconnect meters.
- Billing and Collections – The cost of billing and collections personnel, postage, and supplies.
- Meter Reading – The cost of reading customers’ meters.
- Meter Operation and Maintenance – The cost of installing and maintaining customer meters.

Administrative Services

These costs are sometimes referred to as overhead costs and relate to functions that cannot be directly-attributed to any service. These costs are spread to the other services through an allocator such as labor, expenses, or total rate base. These costs may consist of City Commission expenses, property insurance, and wages for higher level management of the utility.

System Losses

As energy moves through each component of the transmission and distribution system, some of the power is lost and cannot be sold to customers. Losses vary based on time of day and season. Typically, as system usage increases or ambient temperature increases, the percentages of losses that occur also increase. These losses are recovered from distribution customers through an analysis of the peak losses that occur in the system. The average system losses and unaccounted for energy for Selma (Electric) are approximately 6.9%. (Typical municipal system losses are approximately 5.4%)

4. Unbundling Process

The cost of power supply, distribution, and customer services are identified as part of the unbundling process and are the first step in determining unbundled charges to customers. The total revenue requirements of \$7.5M are separated into three categories identified in Table 12.

Table 12 – Breakdown of Selma (Electric) Cost Structure

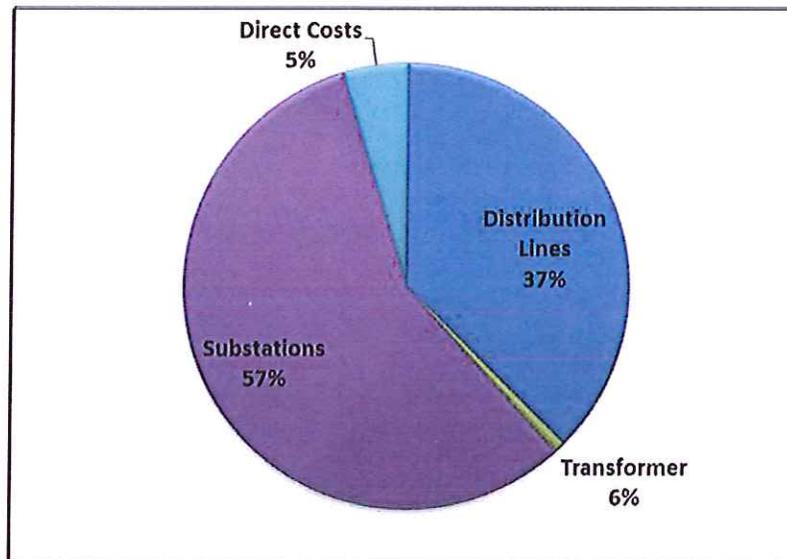
Expense Type	Amount	Percentage
Power Supply	\$ 5,678,504	75.3%
Distribution/Transmission	1,276,213	16.9%
Transfer's Out	175,000	2.3%
Customer Service	407,127	5.4%
Total	\$ 7,536,843	100.0%

Selma (Electric) is projected to expend 75.3% of its total costs toward power supply. Distribution/transmission-related costs are 16.9%; and customer service/transfers 7.7%. These components are broken down into each of the subcomponents and are identified in the following sections.

Distribution Breakdown

Distribution rates consist of a number of different components. Total distribution-related costs of \$1.28M for 2017 are broken down into the main components including substations, transformers, transmission, and distribution lines. Figure 1 shows the breakdown of distribution components identified in the study.

Figure 1 – Breakdown of Distribution Costs

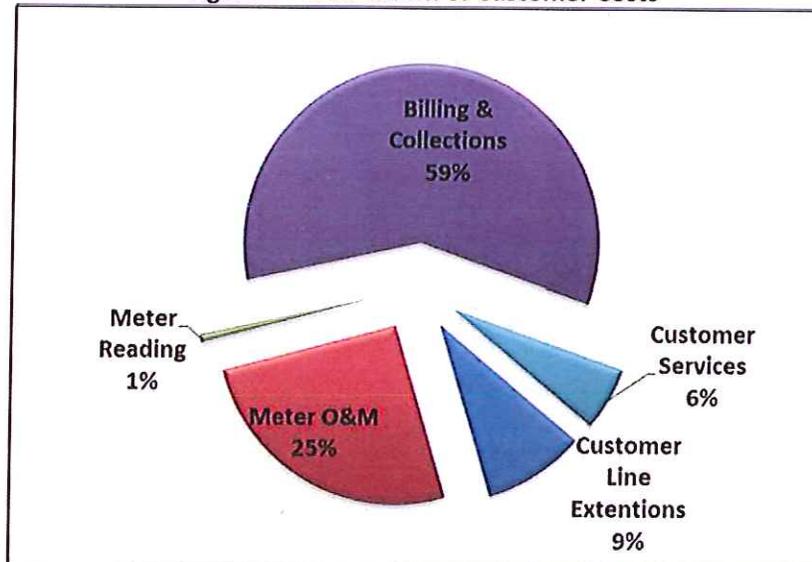


Each of these components is allocated to customer groups based on certain factors established in the study. These factors are based on the efficiency of each customer class and the time of day or the season the electricity is used. Other factors are also considered, such as the length of line extensions to reach certain customer classes.

Customer-Related Cost Breakdown

Selma (Electric) total expenses for customer-related costs are \$407K for 2017. The cost is broken down into the components identified in Figure 2.

Figure 2 – Breakdown of Customer Costs



Power Supply Cost Breakdown

Power supply costs for 2017 were made up of purchased power.

5. Significant Assumptions

This section outlines the procedures used to develop the cost of service and unbundling study for Selma (Electric) and the related significant assumptions.

Forecasted Operating Expenses

Forecasted expenses were based on 2012, 2013 and 2014, 2015 budget adjusted for power supply costs and inflation. The table below is a summary of the expenses used in the analysis; the projected operating expenses include an adjustment for any city contributions.

Table 13 – Projected Operating Expenses for 2017– 2021

Description	Projected 2017	Projected 2018	Projected 2019	Projected 2020	Projected 2021
Operating Expenses					
Purchases					
Purchased Power (Cost of Sales and Service)	\$ 5,678,504	\$ 5,912,103	\$ 6,120,357	\$ 6,284,452	\$ 6,366,224
Off System Debt	(468,996)	(468,996)	(468,996)	(468,996)	(468,996)
Total Purchases Expense	\$ 5,209,508	\$ 5,443,107	\$ 5,651,361	\$ 5,815,456	\$ 5,897,228
Total Power Supply Expense	\$ 5,209,508	\$ 5,443,107	\$ 5,651,361	\$ 5,815,456	\$ 5,897,228
Distribution					
Salaries and Benefits	320,555	328,569	336,784	345,203	353,833
Uniforms	7,688	7,880	8,077	8,279	8,486
Gasoline and Fuel	10,763	11,032	11,307	11,590	11,880
Departmental Supplies	61,500	63,038	64,613	66,229	67,884
Professional Services	65,600	67,240	68,921	70,644	72,410
Other Operating Expenditure	8,303	8,510	8,723	8,941	9,164
Total Distribution Expense	\$ 489,466	\$ 501,703	\$ 514,246	\$ 527,102	\$ 540,279
Other Operating Expenses (Revenues)					
Salaries and Benefits	\$ 444,120	\$ 455,223	\$ 466,604	\$ 478,269	\$ 490,226
Contracted Services	23,319	23,902	24,499	25,112	25,740
Utilities	7,175	7,354	7,538	7,727	7,920
Insurance	56,888	58,310	59,767	61,262	62,793
Dues	7,073	7,249	7,431	7,616	7,807
Other Operating Expenses (Revenues)	77,030	78,956	80,930	82,953	85,027
Transfers Out	175,000	175,000	175,000	175,000	175,000
Prepay Fee	11,275	11,557	11,846	12,142	12,445
Existing Assets Depreciation	465,354	239,770	24,857	24,777	19,302
New Asset Depreciation	6,280	6,200	7,200	4,600	8,000
Depreciation Expense	471,634	245,970	32,057	29,377	27,302
Total Other Operating Expenses	\$ 1,273,513	\$ 1,063,521	\$ 865,672	\$ 879,457	\$ 894,259
Total Operating Expenses	\$ 6,972,487	\$ 7,008,331	\$ 7,031,278	\$ 7,222,015	\$ 7,331,766
Operating Income	\$ 732,523	\$ 924,372	\$ 1,127,062	\$ 1,180,959	\$ 1,286,619

Power supply costs from 2017 – 2021 are based on Selma (Electric)'s current charges adjusted for system growth factors and inflation.

Load Data

Load data is one of the most critical components of a cost of service study. Information from the billing statistics were used to determine the usage patterns of each customer class after reconciling revenues with financial statements to ensure a good basis for development of the study.

Annual Projection Assumptions

The kWh sales forecast is based on FY 2014 actual adjusted for 3.0% growth. Table 14 details growth, inflation of expenses, changes in purchase power costs and interest earned on investments.

Table 14 – Projection Annual Escalation Factors 2017– 2021

Fiscal Year	Inflation	Growth	Purchase Power Change	Investment Income
2014				0.5%
2015	3.0%	1.0%	3.0%	0.5%
2016	3.0%	1.9%	3.0%	0.5%
2017	2.5%	1.9%	3.0%	0.5%
2018	2.5%	1.9%	3.0%	0.5%

System Loss Factors

Losses occurring from the transmission and distribution of electricity can vary from year to year depending upon weather and system loading.

Revenue Forecast

The revenue forecast was based on FY 2014 usages adjusted for growth rate assumptions.

6. Recommendations and Additional Information

We recommend that the utility move toward cost of service for each customer class.

The study indicates rate adjustments are needed to meet debt coverage, minimum cash and operating income targets. To ensure the utility meets financial targets and remains financially stable, the rate track identified in may be considered:

Table 15 – Recommended Rate Adjustments 2017– 2021

Fiscal Year	Projected Rate Adjustments	Projected Expenses	Projected Revenues	Adjusted Operating Income	Target Operating Income	Debt Coverage Ratio	Recommended Minimum	Projected Cash Balances	Recommended Minimum Cash
2016	-10.0%								
2016a	5.0%	\$ 6,753,649	\$ 7,505,500	\$ 282,855	\$ 294,307	1.60	1.40	\$ 1,430,616	\$ 1,740,309
2017	2.0%	6,972,487	7,705,010	263,527	268,463	1.51	1.40	1,708,674	1,862,930
2018	2.0%	7,008,331	7,932,703	455,376	265,815	1.48	1.40	1,910,878	1,936,597
2019	2.0%	7,031,278	8,158,340	658,066	269,887	1.47	1.40	2,102,870	2,001,598
2020	2.0%	7,222,015	8,402,974	711,963	269,979	1.53	1.40	2,477,040	2,059,944
2021	2.0%	7,331,766	8,618,385	817,623	279,401	1.66	1.40	2,656,665	2,137,231

The cost of service study identified some customer classes are subsidizing other customer classes. Selma (Electric) should consider movements toward cost of service using a bandwidth of plus or minus 2%. Using the 5% rate adjustment, this would result in no customer class given a rate decrease greater than 3.0% and the lowest decrease would be 7.0%. Table 16 identifies the cost of service charges compared with the projected current revenues for each class. Classes that indicate a lower % change than the total percentage change are providing subsidy to other customer classes, conversely customer classes with a higher % change than the total percentage are receiving subsidy.

Table 16 – Cost of Service Summary Results

Customer Class	Cost of Service	Projected Revenues	% Change
Residential	3,237,709	3,052,407	6%
PrePay	254,331	230,626	10%
Small General Service	975,735	879,669	11%
Area Lighting	141,286	151,173	-7%
Medium General Service	1,172,806	1,067,977	10%
Large General Service	1,123,731	1,016,315	11%
Large General Service CP	415,919	402,682	3%
Large Industry CP	278,430	290,663	-4%
Total	7,599,947	7,091,513	7.2%

Selma (Electric) may consider movements in the customer charges to move toward cost of service based customer charges to help ensure fixed distribution charges are collected in the customer charge. Table 17 compares the total cost of service monthly customer charges with the current charges. By charging cost of service rates for the monthly charge Selma (Electric) reduces its risk associated with power usage fluctuations due to weather etc.

Table 17 – Customer Charge Comparison

Customer Class	Current Customer Charge	COS Customer Charge
Residential	\$ 6.53	\$ 11.21
PrePay	\$ 10.35	\$ 22.30
Small General Service	\$ 14.45	\$ 29.01
Medium General Service	\$ 19.29	\$ 55.71
Large General Service	\$ 21.48	\$ 122.05
Large General Service CP	\$ 108.88	\$ 456.35
Large Industry CP	\$ 108.88	\$ 1,336.78

Appendix A details the recommended rate design based on the above recommendations.

We recommend that Selma evaluate a demand component rate for distribution recovery cost for the coincident peak classes to better recover distribution associated costs.

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Accountant's Compilation Report

Governing Body
Town of Selma Electric Department

The accompanying forecasted statements of revenues and expenses of the Town of Selma Electric Department (utility) were compiled for the year ending December 31, 2017 in accordance with guidelines established by the American Institute of Certified Public Accountants.

The purpose of this report is to assist management in forecasting revenue requirements and determining the cost to service each customer class. This report should not be used for any other purpose.

A compilation is limited to presenting, in the form of a forecast; information represented by management and does not include evaluation of support for any assumptions used in projecting revenue requirements. We have not audited the forecast and, accordingly, do not express an opinion or any other form of assurance on the statements or assumptions accompanying this report.

Differences between forecasted and actual results will occur since some assumptions may not materialize and events and circumstances may occur that were not anticipated. Some of these variations may be material. Utility Financial Solutions has no responsibility to update this report after the date of this report.

This report is intended for information and use by the governing body and management for the purposes stated above. This report is not intended to be used by anyone except the specified parties.

UTILITY FINANCIAL SOLUTIONS

Mark Beauchamp, CPA, CMA, MBA
Holland, MI
October 2015

Appendix A – Rate Design

Town of Selma
Rate Design

10/13/2015

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Fax (616) 393-9721
Email: mbeauchamp@ufsweb.com

Submitted Respectfully by:
Mark Beauchamp, CPA, CMA, MBA
President, Utility Financial Solutions



Town of Selma
Rate Design

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Town of Selma
Rate Design

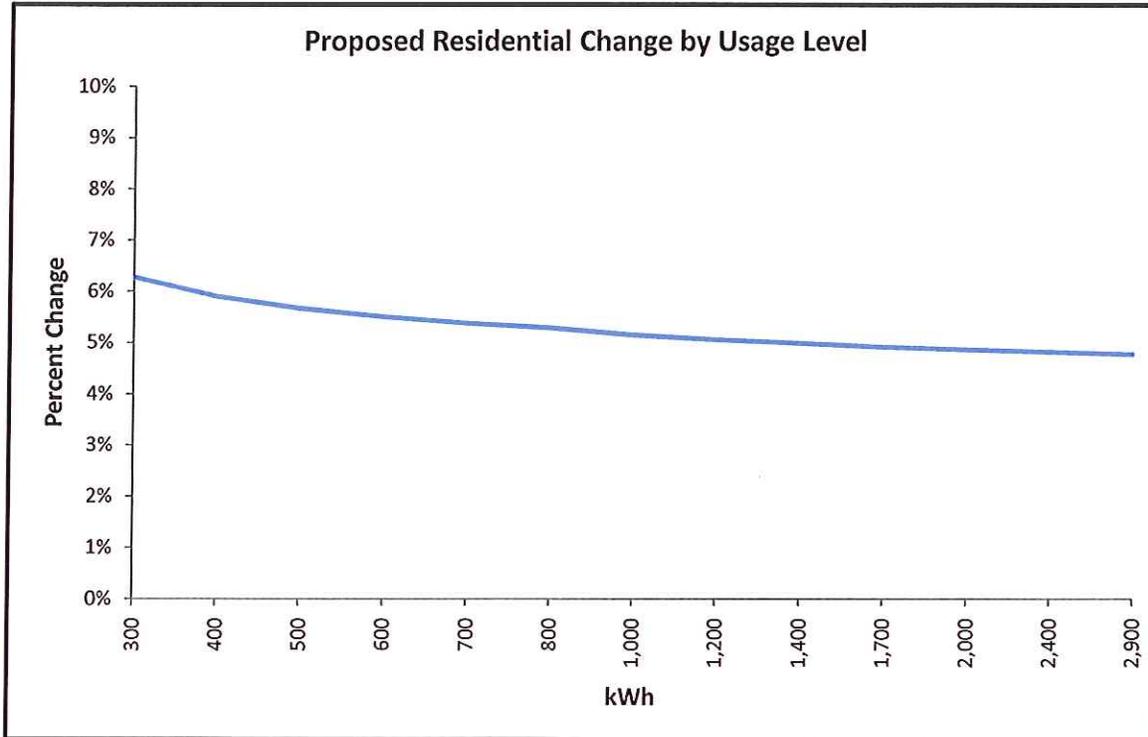
Rate Design Summary

Customer Class	Projecteed Revenues Under Current Rates (COS)	Projecteed Revenues Under Current Rates (RD)	Projected Revenue Change	Projected Change from Current
Residential	\$ 3,052,407	\$ 3,052,407	\$ 3,208,508	5.11%
PrePay	230,626	230,626	242,437	5.12%
Small General Service	879,669	879,669	924,886	5.14%
Area Lighting	151,173	151,173	155,750	3.03%
Medium General Service	1,067,977	1,067,977	1,122,613	5.12%
Large General Service	1,016,315	1,016,315	1,068,437	5.13%
Large General Service CP	402,682	402,682	423,336	5.13%
Large Industry CP	290,663	290,663	299,400	3.01%
Totals	\$ 7,091,513	\$ 7,091,513	\$ 7,445,367	4.99%

Town of Selma
Rate Design

Residential

Current Rates		Proposed Rates		% Change
Monthly Customer Charge:		Monthly Customer Charge:		
Single Phase Service	\$ 6.53	Single Phase Service	\$ 7.50	14.8%
Three Phase Service	\$ 15.25	Three Phase Service	\$ 15.25	0.0%
Energy Charge:		Energy Charge:		
All Energy	\$ 0.1085	All Energy	\$ 0.1134	4.6%
Revenues From Current Rates	\$ 3,052,407	Revenues From Proposed Rates	\$ 3,208,508	5.1%

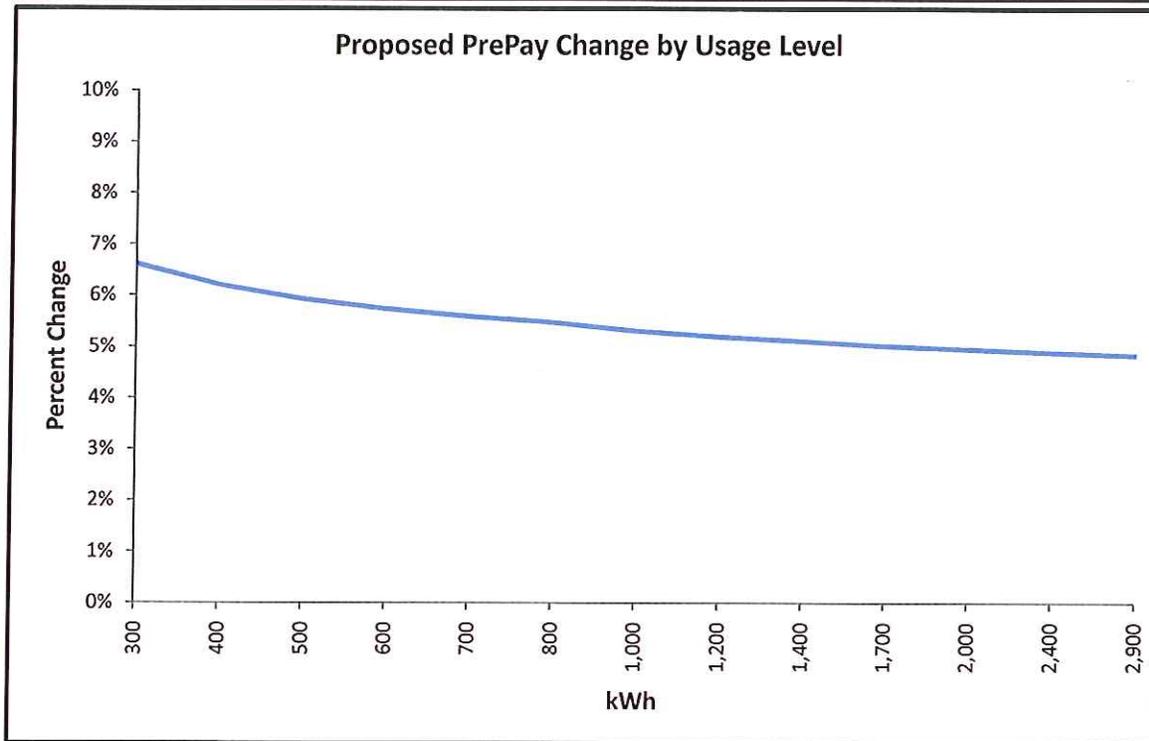


Basic Monthly \$ Change by Usage Level			
Monthly Usage (kWh)	Change \$	Monthly Usage (kWh)	Change \$
300	2.45	1,000	5.92
500	2.95	1,400	7.90
700	4.43	2,000	10.87

Town of Selma
Rate Design

PrePay

Current Rates		Proposed Rates		% Change
Monthly Customer Charge:		Monthly Customer Charge:		
Basic Customer Charge	\$ 10.35	Basic Customer Charge	\$ 11.70	13.0%
Energy Charge:		Energy Charge:		
All Energy	\$ 0.1085	All Energy	\$ 0.1134	4.6%
Revenues From Current Rates	\$ 230,626	Revenues From Proposed Rates	\$ 242,437	5.1%

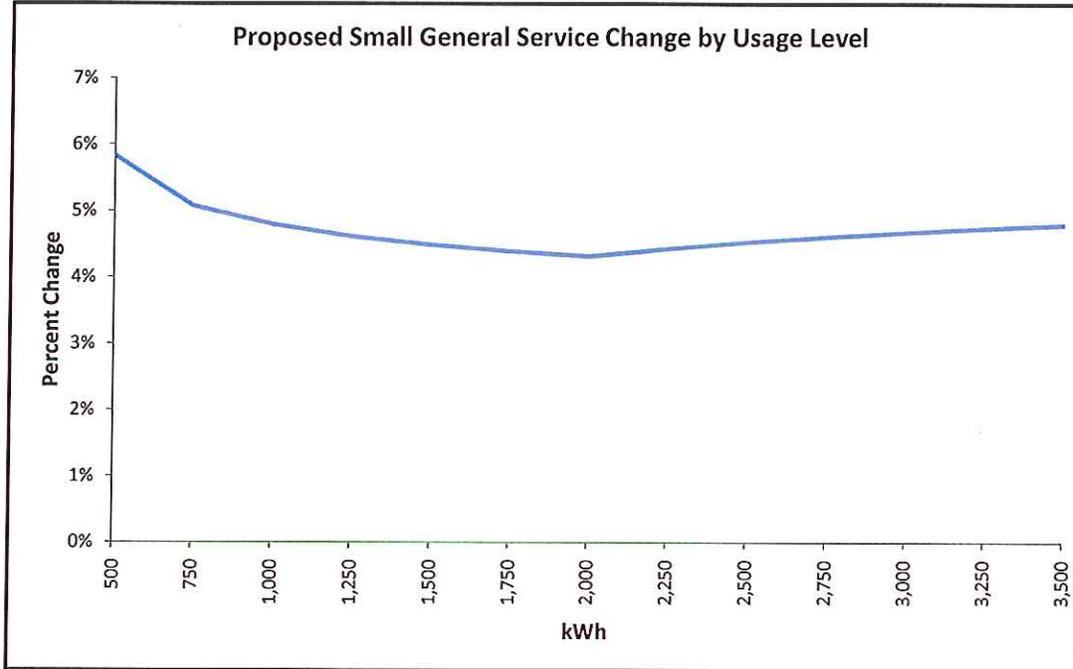


Basic Monthly \$ Change by Usage Level			
Monthly Usage (kWh)	Change \$	Monthly Usage (kWh)	Change \$
300	2.83	1,000	6.30
500	3.33	1,400	8.28
700	4.82	2,000	11.25

Town of Selma
Rate Design

Small General Service

Current Rates		Proposed Rates		% Change
Monthly Customer Charge:		Monthly Customer Charge:		
Single Phase	\$ 12.64	Single Phase	\$ 15.00	18.7%
Three Phase	\$ 21.34	Three Phase	\$ 24.00	12.5%
Energy Charge:		Energy Charge:		
Block 1 (0 kWh - 750 kWh)	\$ 0.126270	Block 1 (0 kWh - 750 kWh)	\$ 0.13038	3.3%
Block 2 (751 kWh - 2,000 kWh)	\$ 0.110520	Block 2 (751 kWh - 2,000 kWh)	\$ 0.11463	3.7%
Block 3 (All Remaining kWh)	\$ 0.104220	Block 3 (All Remaining kWh)	\$ 0.11000	5.5%
Revenues From Current Rates	\$ 879,669	Revenues From Proposed Rates	\$ 924,886	5.1%



Town of Selma
Rate Design

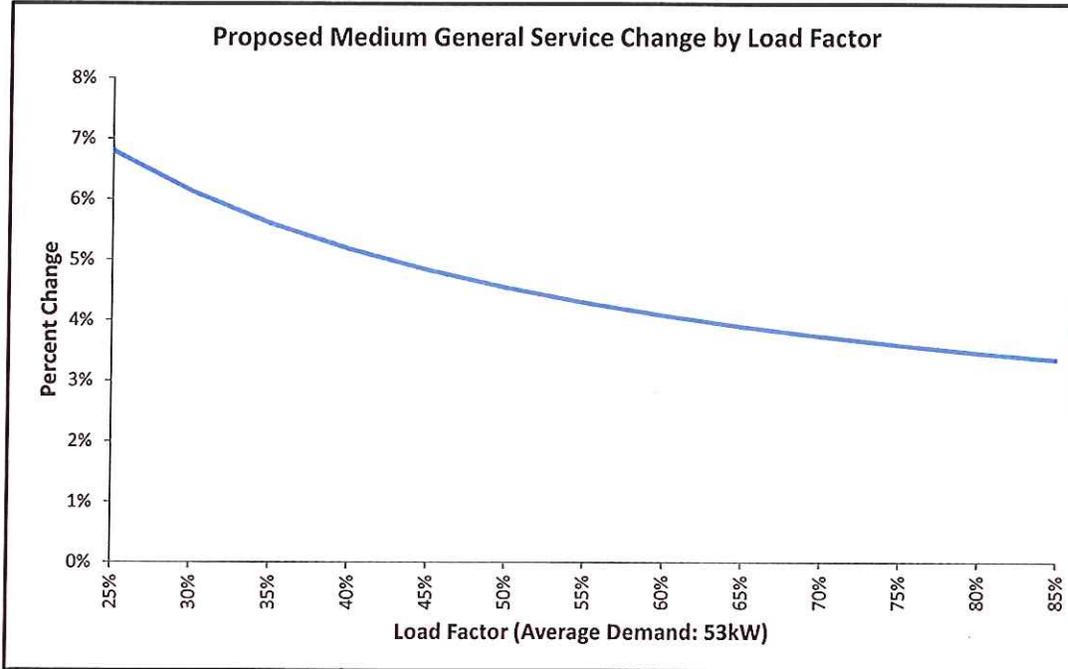
Area Lighting

Current Rates		Proposed Rates		% Variance
Monthly Light Charge:		Monthly Light Charge:		
9500 Lumen Sodium Vapor/Semi-Enclosed	\$ 9.85	9500 Lumen Sodium Vapor/Semi-Enclosed	\$ 10.15	3.1%
22000 Lumen Sodium Vapor/Colbra-Head	\$ 13.79	22000 Lumen Sodium Vapor/Colbra-Head	\$ 14.20	3.0%
27500 Lumen Sodium Vapor/Colbra-Head	\$ 15.61	27500 Lumen Sodium Vapor/Colbra-Head	\$ 16.10	3.2%
27500 Lumen Sodium Vapor/Flood	\$ 16.12	27500 Lumen Sodium Vapor/Flood	\$ 16.60	3.0%
50000 Lumen Sodium Vapor/Colbra-Head	\$ 22.36	50000 Lumen Sodium Vapor/Colbra-Head	\$ 23.00	2.9%
50000 Lumen Sodium Vapor/Flood	\$ 24.96	50000 Lumen Sodium Vapor/Flood	\$ 25.70	3.0%
60000 Lumen Metal Halide/Power Spot	\$ 34.32	60000 Lumen Metal Halide/Power Spot	\$ 35.35	3.0%
100 Watt Sodium Vapor/Semi-Enclosed Selma Housing Authority	\$ 6.17	100 Watt Sodium Vapor/Semi-Enclosed Selma Housing Authority	\$ 6.40	3.7%
250 Watt HPS	\$ 6.76	250 Watt HPS	\$ 7.00	3.6%
Relocation of Area Light(One Year Contract Period)	\$ 46.47	Relocation of Area Light(One Year Contract Period)	\$ 47.90	3.1%
250 Watt HPS with Decorative Pole	\$ 25.82	250 Watt HPS with Decorative Pole	\$ 26.60	3.0%
400 Watt HPS with Decorative Pole	\$ 32.58	400 Watt HPS with Decorative Pole	\$ 33.60	3.1%
A910 A910 AREA LIGHTS MISC	\$ 4.92	A910 A910 AREA LIGHTS MISC	\$ 5.10	3.6%
A923 A923 AREA LIGHTS MISC	\$ 82.67	A923 A923 AREA LIGHTS MISC	\$ 85.20	3.1%
A925 A925 AREA LIGHTS MISC	\$ 88.33	A925 A925 AREA LIGHTS MISC	\$ 91.00	3.0%
A930 A930 AREA LIGHTS MISC	\$ 4.92	A930 A930 AREA LIGHTS MISC	\$ 5.10	3.6%
A931 A931 AREA LIGHTS MISC	\$ 2.46	A931 A931 AREA LIGHTS MISC	\$ 2.50	1.4%
A932 A932 AREA LIGHTS MISC	\$ 2.46	A932 A932 AREA LIGHTS MISC	\$ 2.50	1.4%
Revenues From Current Rates \$ 151,173		Revenues From Proposed Rates \$ 155,750		3.0%

Town of Selma
Rate Design

Medium General Service

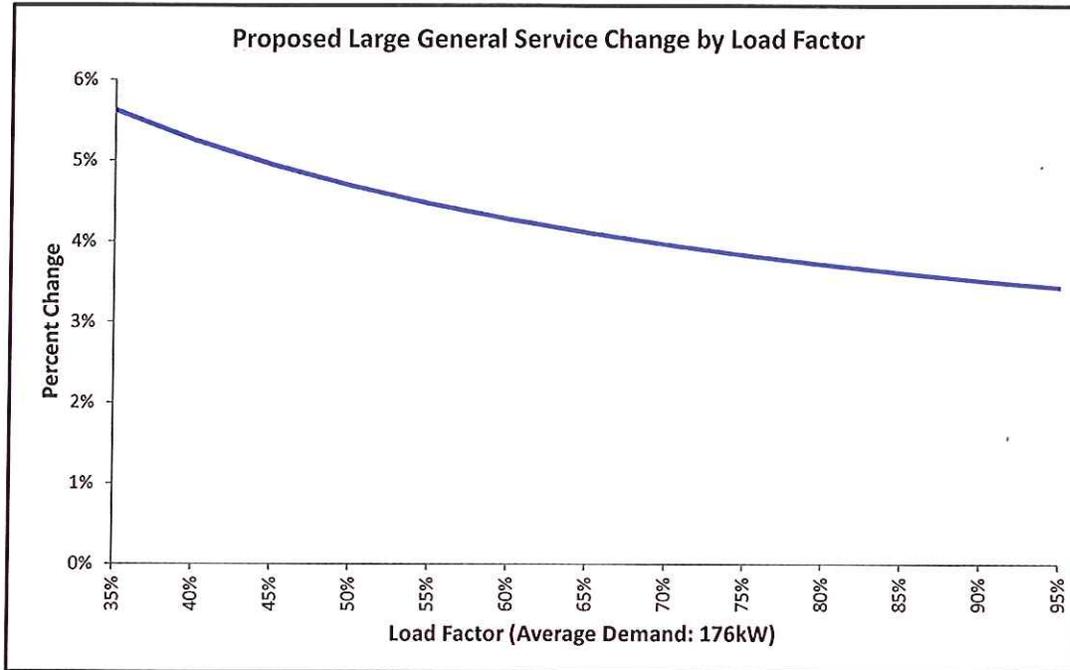
Current Rates		Proposed Rates		% Change
Monthly Customer Charge:		Monthly Customer Charge:		
Single Phase	\$ 13.07	Single Phase	\$ 18.00	37.7%
Three Phase	\$ 21.78	Three Phase	\$ 26.50	21.7%
Energy Charge:		Energy Charge:		
All Energy	\$ 0.086130	All Energy	\$ 0.08723	1.3%
Demand Charge:		Demand Charge:		
All Demand	\$ 6.75	All Demand	\$ 8.00	18.5%
Revenues From Current Rates		Revenues From Proposed Rates		
	\$ 1,067,977		\$ 1,122,613	5.1%



Town of Selma
Rate Design

Large General Service

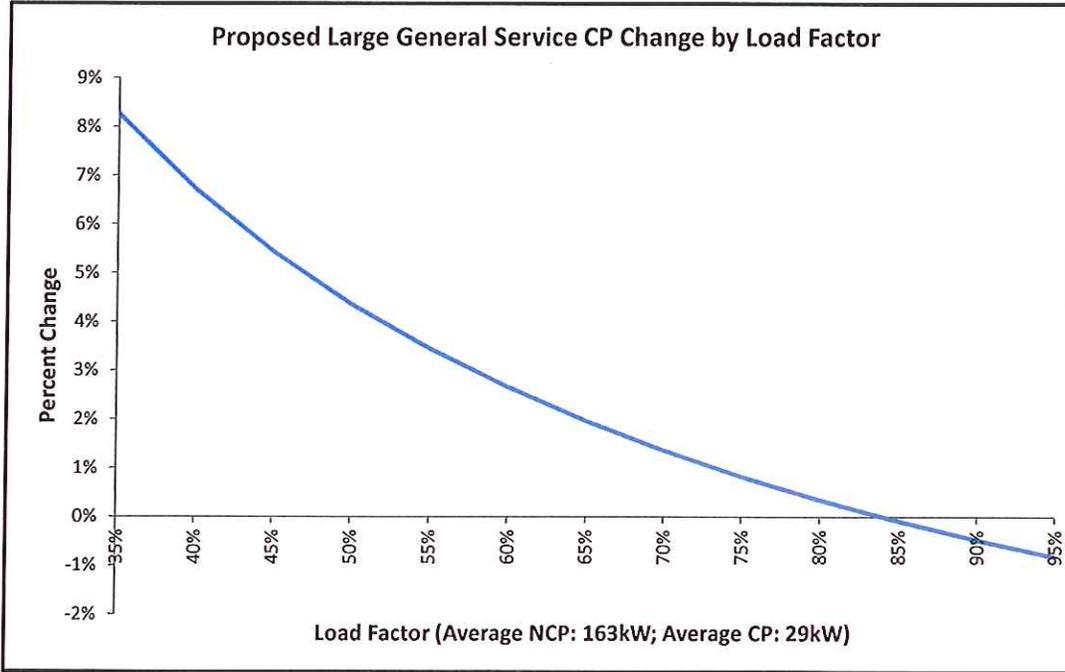
Current Rates		Proposed Rates		% Change
Monthly Customer Charge:		Monthly Customer Charge:		
Single Phase	\$ 13.93	Single Phase	\$ 29.00	108.2%
Three Phase	\$ 22.64	Three Phase	\$ 38.00	67.8%
Energy Charge:		Energy Charge:		
All Energy	\$ 0.07884	All Energy	\$ 0.08014	1.6%
Demand Charge:		Demand Charge:		
All Demand	\$ 7.84	All Demand	\$ 9.00	14.8%
Revenues From Current Rates		Revenues From Proposed Rates		
	\$ 1,016,315		\$ 1,068,437	5.1%



Town of Selma
Rate Design

Large General Service CP

Current Rates		Proposed Rates		% Change
Monthly Customer Charge:		Monthly Customer Charge:		
All Customers	\$ 108.88	All Customers	\$ 500.00	359.2%
Energy Charge:		Energy Charge:		
All Energy	\$ 0.059670	All Energy	\$ 0.05488	-8.0%
Demand Charge:		Demand Charge:		
All Coincident Demand	\$ 17.42	All Coincident Demand	\$ 19.00	9.0%
All Excess Demand	\$ 2.18	All Excess Demand	\$ 2.50	14.8%
Revenues From Current Rates	\$ 402,682	Revenues From Proposed Rates	\$ 423,336	5.1%



Town of Selma
Rate Design

Large Industry CP

Current Rates		Proposed Rates		% Change
Monthly Customer Charge:		Monthly Customer Charge:		
All Customers	\$ 108.88	All Customers	\$ 500.00	359.2%
Energy Charge:		Energy Charge:		
All Energy	\$ 0.052380	All Energy	\$ 0.05250	0.2%
Demand Charge:		Demand Charge:		
All Coincident Demand	\$ 17.42	All Coincident Demand	\$ 19.00	9.0%
All Excess Demand	\$ 2.18	All Excess Demand	\$ 2.50	14.8%
Revenues From Current Rates	\$ 290,663	Revenues From Proposed Rates	\$ 299,400	3.0%

Town Manager Barlow stated that to date, Council had heard a lot of financial analysis regarding the cost of services portion of the study. He said this included what it costs the Town to provide electric services to its citizens. Mr. Barlow stated that this report takes all that data into guidance by the consultant, and gives the Town a rate design. He said that the Town was being given two different studies within one. Mr. Barlow stated that the first 24 pages were the financial data and the cost of service report, with the remainder consisting of the rate design.

Mr. Barlow stated that on September 14, 2015, Ms. Dawn Lund came before Council and presented her findings based on the financial summary and cost of service study. He said that Council wanted to look at more information and rate scenarios. Mr. Barlow stated that on October 5, 2015, where Ms. Lund went through a series of scenarios, gave Council an idea of what would happen over time if certain revenue levels were not met.

Mr. Barlow stated that at that time, Council felt comfortable with a 5% increase in revenues. Mr. Barlow referred to page 10, table 6, which was a summary of the financial results to meet the target operating income. He said that this did incorporate the 10% rate reduction that was approved by Council this fiscal year. Mr. Barlow stated that in 2016 the recommendation was using 5% rate increase that would meet the desired revenue projection. He said that the increase does not mean 5% increase on top of the electric rate. Mr. Barlow stated that the Town needed 5% more in revenue. He said that the cost of service study showed on page 11 the actual cost to provide electrical service to all the classes.

Mr. Barlow stated that on page 11, table 7, the cost of service study result specifically outlines what it costs the Town to provide electric service to every individual rate class. He said that the study showed that some rate classes were subsidizing other rate classes.

Mr. Barlow stated that with that financial information, they were better able to create a rate design that accurately needed a 5% increase in revenue. He said that the question was where to put the emphasis to make sure the Town was charging enough for each rate class where one was not subsidizing the other.

Town Manager Barlow stated that page 3 of the back section included the rate design summary that included all the customer design classes. He said that using the rate parameters as recommended by Ms. Dawn Lund of Utility Financial Solutions, no one would receive less than a 3% rate increase and no one would receive no more than a 7% rate increase. Mr. Barlow stated that with those new parameters, the new rate design was created. He said that the rate increase does range from 5.1% to as low as 3.0%. Mr. Barlow stated that the total revenue increase would be 4.99% to meet the revenue projections in the cost of service study.

Councilmember Overby questioned if the Town was currently using smart meters.

Town Manager Barlow stated that the meters the Town currently use are not smart meters.

Councilmember Overby asked Mr. Baker to look into and bring any information back to Council.

Mr. Baker stated that he would look into to see what it would cost to get a time of use metering system.

Town Manager Barlow stated that if they do go with 5% rate increase this year, they would be looking at a projected 2% increase over the next five years. He said that based on information from the consultant, they would need to look at the electric rates every year. Mr. Barlow stated that the first opportunity to implement the rate increase would be the billing cycle of November 30, 2015.

Councilmember Overby stated that the Town of Benson is doing a study on November 10, 2015. He said they are going to show how they are going to save \$250,000 a year and give a decrease. He said that they are in worse shape than the Town of Selma.

Mayor Oliver stated that they were doing the smart grid initiative.

Councilmember Overby stated that this might be something that Mr. Baker could look into and give a report on it.

Town Manager Barlow stated that it would be his recommendation to take the consultant's recommendation and implement this new rate design for our electrical rates. He said that if the rate increase was approved tonight, the first billing cycle to implement the rate adjustment would be the November 30, 2015 bill cycle.

After discussion by Council, a motion was made by Mayor Cheryl Oliver and seconded by Councilmember William Overby to accept the consultant's projections as prepared by Utility Financial Solutions and implement them by November 30, 2015. Voting Yes: Mayor Oliver, Mayor Pro-Tem Jackie Lacy, and Councilmember William Overby. Voting No: Councilmember Tommy Holmes. Motion carried.

ADJOURNMENT:

With no further business, a motion was made by Councilmember William Overby and seconded by Councilmember Tommy Holmes to adjourn. Motion carried unanimously.

The meeting adjourned at 6:48 p.m.


BRENDA W. THORNE, Interim Town Clerk