

CUYAHOGA FALLS CITY COUNCIL

Minutes of the Public Affairs Committee Meeting

November 17, 2014

Call to Order The meeting was called to order by Mr. Pallotta, Chair at 6:58 p.m. A quorum was present.

Approval of the Minutes Without objection, the minutes of the meeting of October 20, 2014 were approved as submitted.

Agenda Items

Temp. Ords. A-102 and A-103 An ordinance amending Chapter 933 "Electricity" of Title 5 "Public Utilities" of Part 9 "Streets and Public Services" of the Codified Ordinances of the City of Cuyahoga Falls, Ohio relating to electric rates, and declaring an emergency.

An ordinance to adopt the Cuyahoga Falls Electric System Cash Reserve Policy, and declaring an emergency.

The Chair indicated that the Committee would receive a preliminary report from its utility rate consultant, UFS, regarding the City's electric rates, and pending the receipt of a final report, would consider these ordinances at a subsequent committee meeting.

The Chair recognized Michael Dougherty, Superintendent of the Electric Department, who introduced Craig Kleinhenz and Chris Deeter of AMP, as well as Mark Beauchamp of UFS.

Mr. Kleinhenz stated that the City will expect a rate increase in 2015 of 1.8 cents per KWH, affecting capacity charges (32% of the increase), transmission rates from First Energy (27% of the increase), purchase power contracts (28% of the increase), and the start-up of the hydroelectric projects (15% of the increase) that the City has participated in with other AMP members.

The Chair recognized Mrs. Klinger, who asked how long the City would be paying debt service on the hydroelectric plants. Mr. Kleinhenz stated it will be 30 years. Two hydroelectric projects will come on line in 2015 and 2016. All of the debt has been issued. AMP will begin charging for debt service as the plants come on line.

The Chair recognized Mr. Weinhardt, who asked what costs are represented by the First Energy transmission. Mr. Kleinhenz stated this is the cost to transport power across First Energy's transmission grid, including construction and maintenance of the grid.

The Chair recognized Mrs. Pyke, who stated that the rates being discussed by Mr. Kleinhenz are costs to be charged by AMP to the City and are not subject to approval or disapproval by the Council in these ordinances. Mr. Kleinhenz stated this is correct.

The Chair recognized Mr. Colavecchio, who asked if the City has any alternative to First Energy. Mr. Dougherty stated the City's electric system is connected to the First Energy transmission grid. Mr. Kleinhenz stated an alternative to First Energy would require building a transmission line to the transmission grid of another company.

The Chair recognized Mr. Dougherty, who stated that, as point of reference, the City paid \$74.30 per MWH in 2013, as compared with \$66.54 in 2014 and \$85.27 in 2015.

The Chair recognized Chris Deeter, Assistant V.P. of AMP, who stated that the City did not meet its debt covenant in 2013 regarding the Bellville Hydro JV5 project. The City requested a waiver of the debt covenant. The debt covenant is that revenue less expenses must equal 110% of the debt requirement. The failure of the debt covenant for 2014 would require the City to ask for another waiver, which

would probably be granted, but AMP would report rate covenant debt coverage failures to Wall Street debt rating agencies, which would cause the ratings on AMP debt to go down, thus raising AMP's borrowing costs and ultimately the price of power sold to the City by AMP.

The Chair asked if the City has applied for a waiver for 2014. Mr. Deeter stated that the JV5 board approved a waiver for 2013 at its meeting in October 2014. The Chair asked if the Board will waive the covenant for 2014. Mr. Deeter stated he presents the facts to the board. Waivers are if the Board is satisfied that the City is taking action. The 2013 waiver was granted because the City has done a cost of service study.

The Chair recognized Mrs. Pyke, who asked how many members of JV5 there are. Mr. Deeter stated there are 41 members. Mr. Dougherty stated the City owns 16.67% of JV5. Mrs. Pyke asked how many of the JV5 members have not met the debt covenant. Mr. Deeter stated nine waivers were voted on at the October meeting, covering a period of 2010 to 2013. In many cases the failure to meet the covenant is not discovered until audited financial statements are issued. Mrs. Pyke asked who the covenant is with. Mr. Deeter stated it is with JV5, in the joint venture agreement. Mrs. Pyke asked if the City has debt covenants on other joint venture projects. Mr. Deeter stated that it does. However, some joint venture agreements allow cash reserves to apply toward the debt covenant, so it is possible the City could be in default of a debt covenant on one agreement but not others. The JV5 agreement does not permit the resort to cash reserves. Mrs. Pyke asked if the JV5 members make this rule. Mr. Deeter stated it is in the JV5 agreement. Mrs. Pyke asked if this part of the agreement can be revisited. Mr. Deeter stated it would be up to the participants. The nature of the

commitments is part of the package that makes the debt marketable, or marketable at a better rate.

The Chair recognized Mr. Colavecchio, who asked what causes the City to not be in compliance with the debt covenants. Mr. Deeter stated that in 2013 the City's electric fund had a negative operating income. Mr. Dougherty stated the 12-month rolling average for the PCF charge was unusually low in 2013 because the cost of power was low in 2012, even though the cost of power in 2013 was higher. This rate ordinance would correct this effect. Mr. Colavecchio asked if a rate increase is necessary to correct this effect and keep the City's credit rating intact. Mr. Dougherty stated this would be addressed by Mr. Beauchamp in the UFS cost of service study.

The Chair recognized Mrs. Klinger, who asked if the City would have met its debt covenant in 2013 if rolling average of the PCF charge were 6 months instead of 12 months in 2013. Mr. Dougherty stated the City would have had a better chance by doing this, as well having implemented the other recommendations of UFS, including calculating the PCF on KWH sold instead of KWH purchased, and accounting for losses in the system. Mrs. Klinger asked in what other years the City has defaulted on its debt covenant. Mr. Deeter stated it was in 2006 and 2008. Mrs. Klinger asked, given the higher cost of power in 2013, whether the City is on track to meet its 2014 debt covenant from PCF charges. Finance Director Brian Hoffman stated the City anticipates a coverage ratio of 1.4 in 2014, which is well above the 1.1 ratio required by the covenant. Mrs. Klinger stated this effect is a typical business situation and not the "end of the world."

The Chair recognized Mr. Deeter, who explained AMP's credit scoring program as they apply to AMP members. AMP reports the results of its credit scoring program to the Wall Street rating agencies. By use of this program AMP has maintained "A" credit

ratings on all of its projects. AMP is willing to share its credit scoring methods with the Council.

Mrs. Pyke asked if the Council can be provided with the power supply forecast that was supplied to the City in 2012 and 2013. Mr. Dougherty agreed to do so. Mr. Dougherty stated that a cost of service study was last done in 2010, which predicted that a failure of the debt covenant would occur in 2013 in the absence of a rate increase in 2013 and 2014. The study was presented to City Council but was not acted upon.

The committee received a multi-media cost of service study presentation and preliminary report from Mark Beauchamp of UFS.

The Chair recognized Mr. Rubino, who asked that a copy of Mr. Beauchamp's presentation be provided to the Council. The Chair indicated this would be provided.

The Chair closed discussion on Temp. Ords. A-102 and A-103, to be revisited at the next committee meeting.


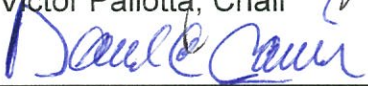
There was no opponent testimony. There was no public comment.

Non-Agenda Items

None.

Adjournment

Without objection, Chairman Pallotta adjourned the meeting at 8:48 p.m.

  
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Victor Pallotta, Chair  
  
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Paul A. Janis, Clerk of Council