

Minutes

The report of minutes of meetings, together with a suggested order of business for meetings, may be made as follows:

Minutes of a _____ meeting of the _____ of
held at _____
on the _____ day of _____ A. D. 19 _____ at _____ o'clock
M., pursuant to

1. Called to order by the President.
2. Determination of a quorum.
3. Reading of minutes of previous meeting, and their approval.
4. Reports of Officers.
5. Reports of Committees.
6. Discussion of Communications.
7. Discussion of Unfinished Business.
8. Discussion of New Business.
9. Adjournment.

FEBRUARY 10, 1984

A special meeting to discuss the Perry Cabin street lighting system with Mr. William H. Corkran, Jr., was held on Friday, February 10, 1984. Alex J. Spencer, William A. Morse, Milford H. Sprecher, Roberta H. Marshall and Mr. Corkran attended the meeting.

Mr. Spencer provided background information on the situation, and Mr. Corkran was given copies of the Delmarva proposals and their current tariff, a copy of the Perry Cabin Annexation Agreement, and a copy of the Lease Agreement with Delmarva.

Mr. Corkran noted that the Town's first concern should be adequate lighting in the subdivision, which would provide safety for the residents. He also stressed that the Town should plan for future as well as present needs. He added that better lighting can be accomplished with a high light than a low-level one.

Mr. Corkran agreed to familiarize himself with the information and come back to the Board with his suggestions on Tuesday, February 14. He also agreed to meet with the Town Commissioners later the same day.

Before adjournment, Mr. Corkran requested copies of the pumping records for the wells for the past year and copies of the electric bills for the wells for the same period.



Roberta H. Marshall, Secretary

FEBRUARY 14, 1984

A special meeting of the St. Michaels Utilities Commission was held on Tuesday, February 14, 1984. Members present were Alex J. Spencer, William A. Morse and Roberta H. Marshall.

Mr. William H. Corkran attended the meeting to discuss his recommendations for street lighting at Perry Cabin. He noted that the lights should be standard and consistent with lighting in the rest of the town, since they will establish a precedent.

Mr. Corkran recommended that the lights at Perry Cabin be the standard high pressure sodium lights on thirty-foot poles with eight-foot brackets. This system would save the town approximately \$16.48 per light per month. He added that the traditional lights that Perry Cabin prefers will not give the amount of light that is necessary unless the most expensive plan is used.

In closing, Mr. Corkran recommended Delmarva's Plan No. 1, and stated that the number of lights can be decreased and respaced in a fashion that is still consistent with good lighting. Mr. Corkran will discuss his findings with the Town Commissioners at 1 p.m.

There was no further business, and the meeting was adjourned.



Roberta H. Marshall, Secretary

FEBRUARY 22, 1984

A meeting was held on Wednesday, February 22, 1984 with Delmarva and Perry Cabin to discuss the implementation of the street lighting plan for Perry Cabin. Utilities President Alex Spencer and Secretary Roberta Marshall attended the meeting. Delmarva representatives Bob Parks and Larry Wood were in attendance, as well as Town Clerk Mickey Sprecher and Tom Meyerhoff from Perry Cabin.

Mr. Sprecher explained that the Utilities Commission has recommended that 30' fiberglass poles with 8' brackets be installed; 100 watt high pressure sodium lamps will be used. The lights will be placed at intersections and places where pedestrians will be crossing the street. These are the areas where accidents are most likely to happen. The 100 watt bulbs give a softer light, and are recommended for residential areas. Looking to the future, the 30' poles are easier to upgrade if it becomes necessary.

A larger pole with brighter light will be used at the Perry Cabin intersection on Route 33.

After Mr. Meyerhoff indicated his approval of the plan, technical details of placement of the lights was discussed. Mr. Parks stated that Delmarva's engineers will order the materials as soon as possible. As soon as the wire is received, Delmarva will start to put in the underground distribution system so that Perry Cabin can have current for construction purposes. The street lighting system will be put in with the distribution facilities. It is intended that telephone and cable television wires go in the same trench.

Mr. Spencer stated that it is the hope of the Utilities Commission that the same type light used at Perry Cabin can eventually be used all over town.

There was no further business, and the meeting was adjourned.



Roberta H. Marshall, Secretary

MARCH 15, 1984

A meeting was held with Delmarva representatives on Thursday, March 15, 1984. Those in attendance were Town Commissioner Richard E. Brown, and Utilities representatives William A. Morse and Roberta Marshall. William Brittingham, Ken Jones and Larry Wood represented Delmarva.


Purpose of the meeting was to review the Town's street lighting system.

Mr. Brittingham presented a five-year plan, which would result in a savings of approximately \$2,000 the first year and an additional amount of approximately \$500 per year for each of the next four years. This would be accomplished mainly by replacing the mercury vapor lights with high pressure sodium lights, thereby utilizing Delmarva's new tariff while using more efficient lighting.

Mr. Brittingham noted that the spacing of the lights in the business section is good, and that Talbot Street would be the first change to make. Other sections to be changed could be determined by the Town Commissioners.

A letter will be sent from Delmarva as soon as possible, describing the plan as it was presented.

There was no further business, and the meeting was adjourned.


Roberta H. Marshall, Secretary


APRIL 11, 1984

A meeting of the St. Michaels Utilities Commission was held on Wednesday, April 11, 1984 for the purpose of discussing the street lighting plan submitted by Delmarva. Those present were Alex J. Spencer, William A. Morse, Alfred J. Millard, and Roberta H. Marshall. Engineer William H. Corkran attended the meeting, as well as Town Clerk Milford H. Sprecher.

Mr. Millard, who was recently appointed to the Commission, was brought up to date on the lease with Delmarva and various other aspects of the Utilities Commission's duties and functions.

The street lighting plan was discussed with Mr. Corkran. He will study the plan, along with the current street lighting map provided by Mr. Sprecher, and will give the Commissioners his advice and opinions as soon as possible.

There was no further business, and the meeting was adjourned.



Roberta H. Marshall, Secretary

JULY 25, 1984

A meeting of the St. Michaels Utilities Commission was held on Wednesday, July 25, 1984. Members present were Alex J. Spencer, Alfred J. Millard, and Roberta H. Marshall.

William Brittingham and Larry Wood from Delmarva attended the meeting, as well as Engineer William Corkran and Town Manager William B. Nicholson, Jr.


Mr. Brittingham presented his study of the Town's street lighting system, with suggested ways that the Town can reduce the bill. This same plan had been presented at a meeting held in March, but it was repeated for the benefit of those who could not attend the March meeting. Mr. Brittingham stated that if the Town Commissioners approve the plan, the work can start as soon as the materials are ordered and received and the engineering is completed. Each particular phase of the project would take about a month to complete after the work is actually started.

Following the departure of Mr. Brittingham and Mr. Wood, the Commissioners discussed the street lighting with Mr. Corkran, who is advising them on the matter. Mr. Corkran agreed to go over Delmarva's proposed changes on the map which was left here on loan. He will also walk through the town to observe street light placement, etc.

A preliminary report on the current status of the Sinking Fund was distributed and reviewed. A comparison of the electric bills for the last two years was also discussed.

The minutes of the last meeting, held on April 11, 1984, were approved as written.

There was no further business, and the meeting was adjourned.



Roberta H. Marshall, Secretary

ST. MICHAELS UTILITIES COMMISSION
SINKING FUND BALANCE: June 30, 1984

Maryland National Bank Smart Saver Certificates:

- (1) Purchased June 9, 1983, Due December 8, 1985
Interest Rate: 10% (10.38% comp. qtr.)

Face Value \$79,558.13
Interest, 7/1/83 to 6/30/84 8,740.35

\$ 88,298.48

- (2) Purchased September 19, 1983, Due March 19, 1986
Interest Rate: 10.7% (11.14% comp. qtr.)

Face Value \$91,733.57
Interest, 9/19/83 to 6/30/84 7,851.37

99,584.94

Savings Account, Maryland National:

Balance, July 1, 1983 \$ 2,652.07
Interest, 7/1/83 to 6/30/84 227.98

2,880.05

Contribution, June 30, 1984:

Transfer from General Fund \$107,484.95
Less Interest Earned & Noted Above - 16,819.70

90,665.25

Total, June 30, 1984

\$281,428.72

AMOUNT TO BE INVESTED AT PRESENT TIME:

June 30, 1984 Transfer from General Fund \$90,665.25
Savings Account 2,880.05

\$93,545.30

Note: The Town will be ready to make this investment as soon as a Certificate of Deposit comes due on September 4, 1984. The balance on the Savings Account will be slightly increased by that time, due to additional interest.

THE UNIVERSITY OF CHICAGO
LIBRARY
540 EAST 57TH STREET
CHICAGO, ILL. 60637
TEL: 773-936-3100

DATE: 10/15/1983
BY: [Signature]

RECEIVED
[Signature]

10/15/1983

10/15/1983

10/15/1983

ST. MICHAELS UTILITIES COMMISSION
ADDITION TO SINKING FUND FOR 1984

Rentals Received for Fiscal Year Ending 6/30/84		\$230,000.00
Less Electric Costs:		
Street Lighting	\$27,506.01	
Water Pumping	11,811.24	
Town Office	2,534.33	
Other Municipal Uses	<u>1,663.47</u>	
		- <u>43,515.05</u>
		\$186,484.95
Less Transfer to General Fund		- <u>79,000.00</u>
Balance to be Transferred to Sinking Fund		<u>\$107,484.95</u>

RECEIVED
FEBRUARY 19 1954

TO THE DIRECTOR, NATIONAL BUREAU OF STANDARDS
WASHINGTON, D. C.

FROM: [Illegible]
SUBJECT: [Illegible]

1. [Illegible]
2. [Illegible]
3. [Illegible]

Very truly yours,
[Illegible Signature]

RECEIVED
FEBRUARY 19 1954

AUGUST 29, 1984

The regular meeting of the St. Michaels Utilities Commission was held on Wednesday, August 29, 1984. Members present were Alex J. Spencer, William A. Morse, and Roberta H. Marshall. Commissioner Alfred J. Millard was unable to attend. Town Clerk/Manager William B. Nicholson, Jr., also attended the meeting.

Mr. Nicholson reported that he and Mr. Corkran have inspected the Town's street lighting system, and the changes that have been recommended by Mr. Corkran were discussed. Mr. Spencer, Mr. Corkran and Mr. Nicholson will arrange a meeting with Delmarva as soon as possible to discuss their ideas.

The minutes of the meeting of July 25 were approved as read.

The Commissioners then turned to a discussion about the investment of the amount to be transferred to the Sinking Fund at the end of the fiscal year. A complete analysis of the fund, showing a breakdown of the current transfer, is attached to these minutes. Most of the sinking fund is presently invested in Savers Certificates that do not mature until December of 1985 and March of 1986. It was agreed that this current investment should be geared to mature in December of 1985, by which time the Sinking Fund will be large enough to seek professional investment counseling. In the meantime, the current amount of the transfer will be placed in a collateralized Certificate of Deposit. The investment will be made in a local bank if the interest rate is competitive. Mr. Morse will get a quote from Maryland National Bank, and Mr. Nicholson agreed to get quotes from other banks. After all the information is in, the matter will be turned over to the Town Commissioners for their decision.

It was noted that the meeting with Delmarva for the Annual Review of the system should be held in October. Mr. Spencer will contact the manager of the St. Michaels office to set the wheels in motion.

There was no further business, and the meeting was adjourned.



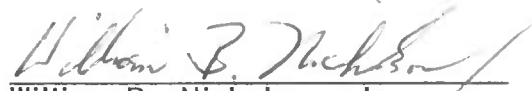
Roberta H. Marshall, Secretary

OCTOBER 26, 1984

The annual meeting of the St. Michaels Utilities Commission for the review with Delmarva took place at Longfellow's Restaurant on Friday, October 26, 1984. In attendance were Commission members Alex J. Spencer, Alfred J. Millard, and William A. Morse. Also present was Town Clerk/Manager William B. Nicholson, Jr., and Larry Wood and Kenneth Jones from Delmarva.

A discussion took place which involved the previous year's growth in service; there were 108 new hookups. Also discussed were Delmarva's efforts for rate increases to be heard before the Public Service Commission. The representatives remarked that Delmarva stock was above \$20 per share for the first time in many years, and felt that Delmarva management had made some good decisions on opting for coal-powered generation at a fortuitous time.

The matter of opening negotiations on a new five-year agreement was discussed. It was agreed that after the next meeting in October of 1985 discussions would begin.



William B. Nicholson, Jr.
Acting Secretary

DECEMBER 5, 1984

Members of the St. Michaels Utilities Commission met with Delmarva personnel to discuss the Town's street lighting on Tuesday, December 5, 1984 at 10:15 A.M.

Alex J. Spencer, Alfred J. Millard and Roberta H. Marshall represented the Utilities Commission. Also in attendance were Utilities advisor William H. Corkran, Jr., Town Commission President Ernest E. McMahon, and Town Clerk/Manager William B. Nicholson, Jr. Lighting Engineer William Brittingham and District Manager Larry Wood represented Delmarva.

Mr. Nicholson informed the group that he and Mr. Corkran have walked over the street light system, and had modified the original street lighting that was submitted by Mr. Brittingham. The modifications included relocating some of the lights, extending the brackets on some others, and the elimination of approximately seventeen lights out of the total of forty-four that are now on Talbot Street.

Mr. Brittingham stated that the plan he originally submitted had been approved, and if there were any major changes he would have to go back to his superiors at Delmarva for further approval.

Mr. Corkran stated that the Town is in need of reducing the cost of street lighting, but may later be under pressure from the townspeople to put some of the lights back. He noted that Talbot street is not an arterial type of street, but the Town must maintain good light while keeping the cost under control. Mr. Spencer added that Delmarva will be adding additional street lights at each end of town, for Perry Cabin and for the Housing Authority, and this would make up for the lights that the Utilities propose be eliminated.

Mr. Brittingham spoke of the possibility of using 100 watt high pressure sodium lights, rather than 150 watt, but it was felt that the lighting distribution would be poor. Mr. Brittingham mentioned that Delmarva was prepared to spend approximately \$63,000 on the original plan so that St. Michaels could save around \$5,000 on the street light bills when the entire plan was completed. He must do another cost sheet before submitting the Town's plan. He also suggested that the St. Michaels Police Department be consulted about the need for lighting in particular areas.

Mr. Wood assured the group that everyone at the meeting wanted to come up with the best possible lighting at the least possible cost.

After further discussion along these same lines, Mr. Brittingham asked if Mr. Nicholson would summarize the proposed changes, and send the proposal to him. Because of a heavy work load, he will not be able to work on the project until after the first of the year. He also mentioned Delmarva's tariff, and stated that some of the changes may come under it. In that case, the cost to the Town could be quite high.

It was agreed that the proposed changes will still come under the same five phases and the same time cycle.

Mr. Nicholson and Mr. Corkran will write up the Town's proposed changes, and will forward them to Mr. Brittingham.

Following the approval of the minutes of the October 26, 1984 meeting, the meeting was adjourned.

Roberta H. Marshall, Sec. Treas

FEBRUARY 27, 1985

The regular meeting of the St. Michaels Utilities Commission was held on Wednesday, February 27, 1985. All members were present. The meeting was called to order by Alex J. Spencer at 3:00 P.M.

First order of business was the election of officers for 1985. On a motion by Mr. Morse, seconded by Mr. Millard, Alex J. Spencer was unanimously elected President for 1985. On a motion by Mr. Millard, seconded by Mr. Spencer, William A. Morse was elected Vice President. Roberta H. Marshall was appointed Secretary-Treasurer.

The minutes of the meeting of December 5, 1984 were approved as read.

Town Clerk/Manager William B. Nicholson, Jr. attended the meeting to update the Commissioners on the street light situation. On Monday, February 25, Mr. Brittingham and Mr. Wood met with Mr. Nicholson and looked over the proposed changes. Delmarva has agreed to remove a total of fifteen lights on Talbot Street, and will include in Phase I a few extra lights that are on side streets but near Talbot Street. Mr. Brittingham is now in the process of making a new map and getting the work orders ready. The work is expected to begin in the near future.

Mrs. Marshall announced that the Utilities Commission has received a check in payment for the St. Michaels Harbour Marina account in the amount of \$1,012.92. This amount was due in October of 1981, when the firm declared bankruptcy.

There was a short discussion about the lease with Delmarva, and the five-year update which will take place in October of 1986. It was agreed that the work of getting data together, in view of asking an increase in the amount, should begin in late 1985.

Financial statements for the year ending December 31, 1984 were distributed for the Commissioners' information.

Mr. Morse noted that the Commissioners appreciate Mr. Nicholson's attendance at Utilities meetings, and stated that he felt the attitude toward the Utilities has been much better since Mr. Nicholson's arrival.

There was no further business, and the meeting was adjourned at 3:55 P.M.



Roberta H. Marshall, Secretary

Minutes of the annual meeting of the St. Michaels Utilities Commission
and representatives of Delmarva Power & Light
November 1, 1985

The annual meeting of the St. Michaels Utilities Commission and representatives of Delmarva was held at Longfellows Restaurant at 12 noon on November 1, 1985. In attendance were Commission members Alex Spencer and Pat Morse, Town Clerk/Manager W.B. Nicholson, Jr., advisors William Corkran and David Mann and Delmarva representatives Larry Wood and Ken Jones.

Mr. Jones handed out a fact sheet hereby made a part of these minutes showing what had transpired in the St. Michaels electric system during the previous year. Mr. Wood said that over 100 new subscribers had been added to the system in the previous year and that subscribers now amount to around 3,050. The 100 new subscribers had been about the average number of new users in the four years the lease had been in effect.

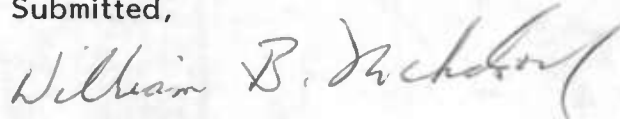
Mr. Jones said that the Utilities Commission would have to advise Delmarva in writing if they wished to re-negotiate the lease amount. He said Delmarva would be willing to extend the lease at the same amount. If a new amount were to be proposed it would be complicated to determine the profitability of the system but it could be done recognizing that some judgements would be involved.

It was decided that Mr. Spencer would approach Mr. Ray Landon of Delmarva to discuss what might be the best course of action by the Commission. Additional meetings were planned although no dates were set.

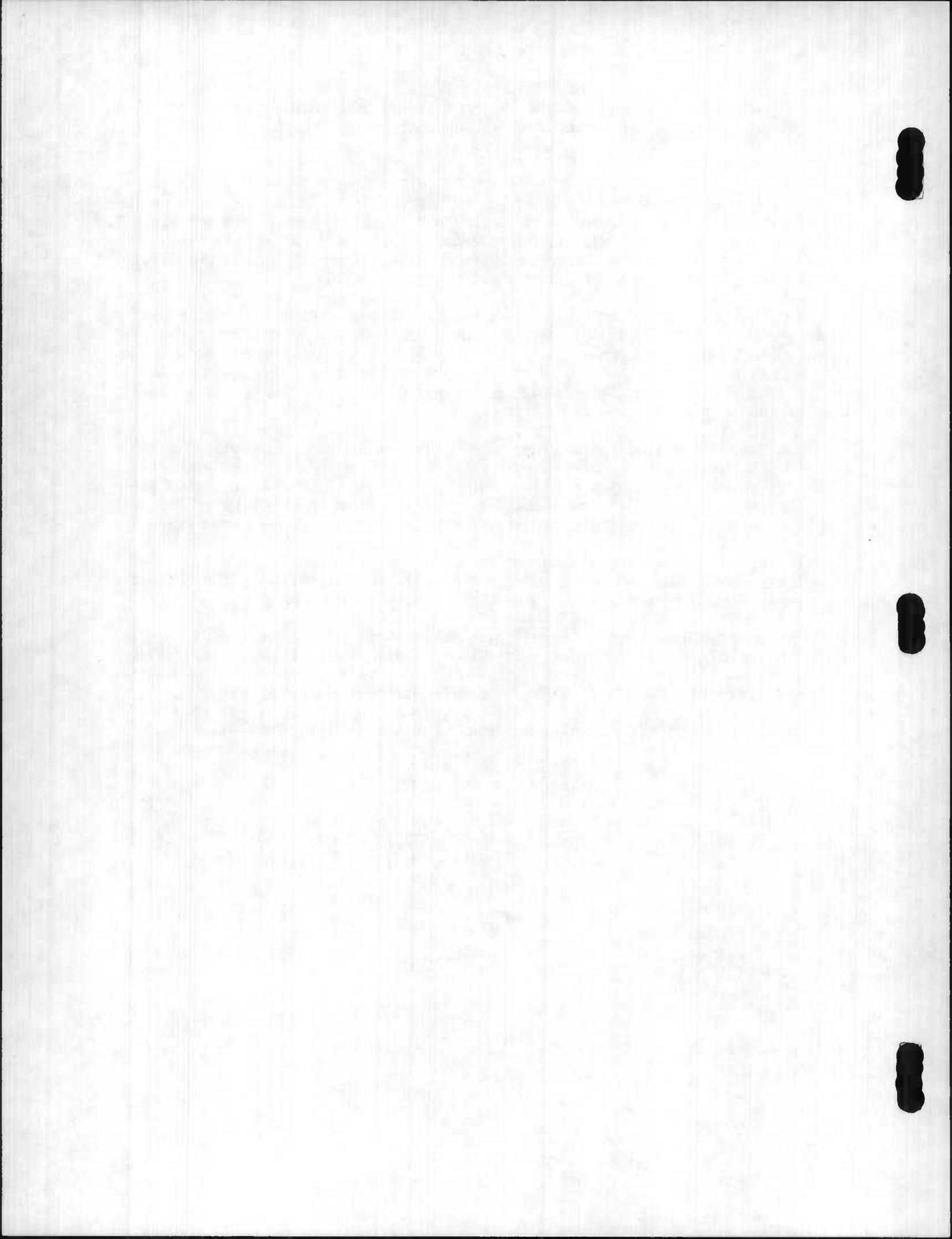
Mr. Wood will arrange a meeting for Phase II of the Street light conversion with Mr. Nicholson. It was noted that Phase I had resulted in an annual savings of \$4,585.08. Mr. Nicholson was asked about complaints concerning the change over but there had been only three, one of which was clearly unfounded.

Everyone thanked Mr. Jones for lunch and the meeting was adjourned.

Submitted,



William B. Nicholson, Jr.



FEBRUARY 3, 1986

A meeting of the St. Michaels Utilities Commission was held on Monday, February 3, 1986 at 3:00 P.M. in the Town Office Meeting Room. Members present were Alex J. Spencer, Alfred Millard and Roberta H. Marshall. William Corkran, Jr., and J. David Mann also attended the meeting.

The purpose of the meeting was to discuss the upcoming negotiations with Delmarva Power concerning the lease agreement for the St. Michaels distribution system. According to the agreement, the amount paid for rental is subject to revision every five years. Negotiations shall take place no more than 180 days prior to the beginning of each such five-year period. Any revision in the rental amount must be approved by the Maryland Public Service Commission.

Mr. Mann reported that he and Mr. Corkran had been to the Public Service Commission in Baltimore to look at the financial reports filed by Delmarva in the past five years. A copy of their findings is attached to these minutes. They show that Delmarva has shown increasing profits each year of the period, and that the return on their equity is now up to fifteen percent.

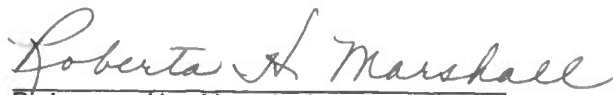
Mr. Corkran cited the lease agreement, which gives factors to be considered for a change in the rentals. These are:

1. Changes in the size and character of consumer population in the territory.
2. The effect of such changes on Delmarva's system load factor.
3. Changes in the general rate of inflation.

Each of the above factors was thoroughly discussed. It was agreed that all of them will affect the amount of the rent monies. According to Delmarva's St. Michaels manager, Larry Wood, approximately 100 customers per year have been added to the system. It is assumed that the type of customers added have improved Delmarva's load factor. Although the exact rate of inflation for the five-year period is not known at this time, the figure is assumed to be about thirty percent. The exact figure will be gotten before the meeting with Delmarva.

A comparison of the Town's bills for electricity was distributed, and the increase in costs of electricity to individual customers was noted.

There was no further business, and the meeting was adjourned at 4:30 P.M.


Roberta H. Marshall, Secretary

FEBRUARY 4, 1986

In order to start preparations for discussion of the Delmarva lease, the St. Michaels Utilities Commission met informally with Delmarva officials on Tuesday, February 4, 1986. The Utilities Commission was represented by Alex J. Spencer, Alfred Millard, and Roberta Marshall. Utilities advisors William Corkran and David Mann attended the meeting. Vice President Ray Landon, Municipal Sales Representative Ken Jones, and St. Michaels Manager Larry Wood represented Delmarva.

Mr. Spencer explained that the Utilities Commissioners thought it would be a good idea to get together before the time for negotiations, merely to discuss the lease in general.

Mr. Landon agreed, saying that there are no figures available at this point, since negotiations will not start until mid-April. He spoke of the growth rate for the St. Michaels system, and commented that he feels that average use per St. Michaels system residential customer is greater than average residential use on the Delmarva system in general. Mr. Spencer spoke of the construction of the new hotel in St. Michaels, and the addition of rooms to the St. Michaels Motor Inn and to Martingham Inn. He also mentioned the new supermarket that has been built on St. Michaels lines and the large number of new residences that have been built in the area.

Mr. Landon stated that Delmarva has plenty of generating capacity to handle growth. Their long range plans show that they may not have to add another generating station until the year 2000.

Delmarva has agreed to buy out the Lincoln-Ellenboro Electric Company. Mr. Landon explained that they paid market value for the system (approximately \$1,200 per customer), but that the Lincoln-Ellendale net rate base was much smaller than the market value. The Delaware Commission is having trouble justifying the approximately \$1,000,000 acquisition adjustment. Mr. Landon noted that St. Michaels now has a shrinking rate base, and the Commission may want to think about that in terms of the future.

Mr. Landon spoke of Delmarva's present financial picture, stating that it has been very good for the past few years.

Mr. Jones will begin research on the increase in St. Michaels customers and will determine the load factor in the near future, so that all figures will be available when the negotiations begin.

The Utilities Commissioners will meet with the Town Commissioners in the near future to discuss the coming negotiations.

There was no further business, and the meeting was adjourned at 12 noon.


Roberta H. Marshall, Secretary

2/3/86

Delmarva Power

	1980	1981	1982	1983	1984	1985
Net Income ^{1/}	48,956,890	58,711,336	73,571,566	85,064,291	92,109,171	-
Earnings per share ^{2/}	1.50	1.73	2.13	2.52	2.60	2.68
Return on Equity (%) ^{3/}	9.8	11.0	12.0	14.2	15.0	-

^{1/} 5 year increase = 88%

^{2/} 6 year increase = 78.6% (5 yr. increase = 73%)

^{3/} 5 year increase = 53%

All data at November 30; taken from FERC Reports

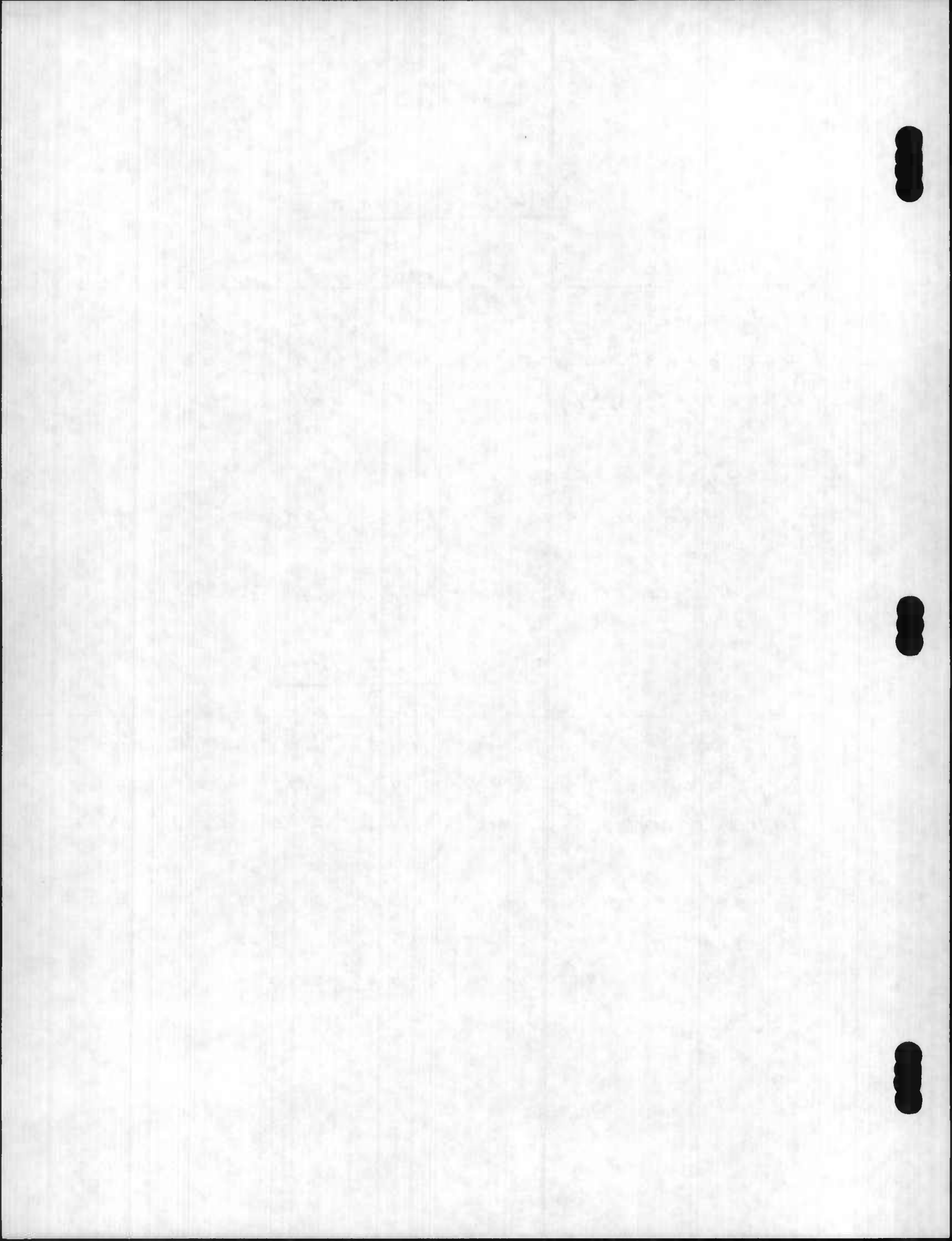
St. Michaels Utilities

	1980	1981	1982	1983	1984
Net Plant ^{1/}	1,212,036	1,189,510	1,136,433	1,025,037	973,764
Depreciation ^{1/}	28,915	22,546	53,077	111,396	51,273
Deprec. Percentage ^{2/}	2.385	1.895	4.670	10.867	5.467

^{1/} Total reduction in net plant - 5 years = \$238,292

^{2/} Average annual depreciation rate = 3.932

All data taken from Annual Reports to Md. P.S.C.



ST. MICHAELS UTILITIES COMMISSION
COMPARISON OF ELECTRIC COSTS

	<u>10/15/81 to 6/30/82</u>	<u>7/1/82 to 6/30/83</u>	<u>7/1/83 to 6/30/84</u>	<u>7/1/84 to 6/30/85</u>
Street Lighting		\$26,562.50	\$27,506.01	\$31,541.94
Water Pumping		(11,811.24	12,496.55
Town Office Building		— (13,651.60	2,534.33	2,910.99
Other Municipal Uses		(<u>1,663.47</u>	<u>1,688.94</u>
Total	\$26,578.13	\$40,214.10	\$43,515.05	\$48,638.42

Note: Costs for street lights will drop in the year ending 6/30/86, due to the conversion to high pressure sodium lights on Talbot Street. The annual savings for Talbot Street will amount to approximately \$4,585.

Phase II, on the east side of town from Mill Street to Mulberry, will be initiated this year.

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COMPARISON OF STREET LIGHT BILLS

April, 1985

220 lights,	18,080 KWH	Base Charge	\$2,116.01
		Fuel Charge	<u>409.88</u> (18,080 kwh @ 2.267¢)
		Total Cost	\$2,525.89

September, 1985

208 lights,	14,552 KWH	Base Charge	\$1,813.90
		Fuel Charge	<u>329.90</u> (14,552 kwh @ 2.267¢)
		Total Cost	\$2,143.80

SAVINGS

<u>Base Charge</u>		<u>Per Month</u>	<u>Per Year</u>
220 lights	\$2,116.01		
208 lights	<u>1,813.90</u>		
Net Savings		\$ 302.11	\$3,625.32
<u>Fuel Adjustment</u>			
3,528 KWH @ 2.267¢		<u>79.98</u>	<u>959.76</u>
<u>TOTAL SAVINGS</u>		<u>\$ 382.09</u>	<u>\$4,585.08</u>

1925

W. COLTON LEE

STATE OF TEXAS

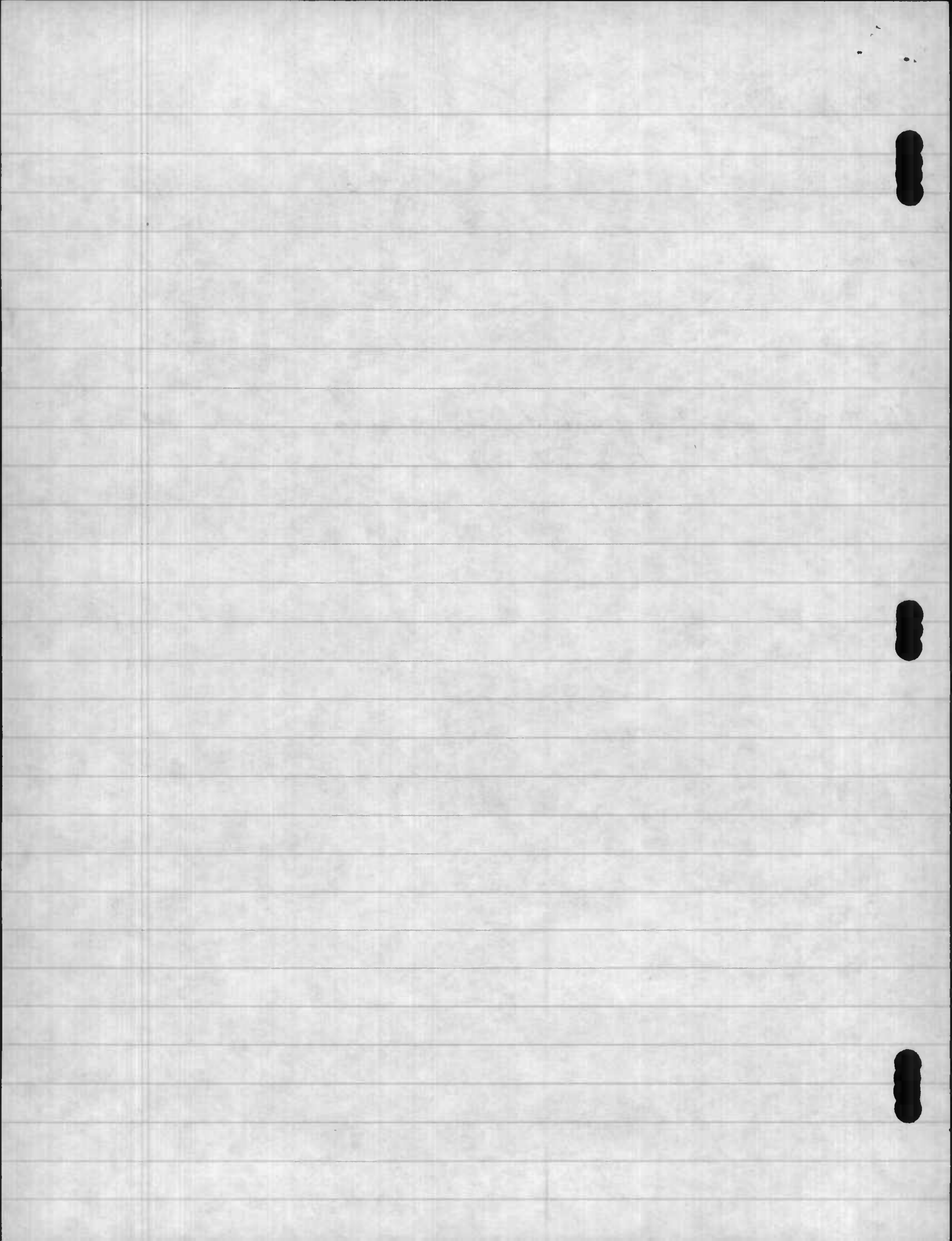
COMMUNITY

St. Michaels Rates
In Effect 10/15/81

Delmarva Rates
January, 1986

1st 20 -	1.78	} 1317 KWH	1,000 -	67.76
next 80 -	5.76		317 -	14.75
next 300 -	16.20		Cust. Chge -	3.00
" 917 -	<u>42.18</u>			
	65.92			85.51

Note: Since Fuel Rate for St. Michaels is an unknown factor, it is not included in DPL charge.



PLEASE BRING ENTIRE BILL WHEN PAYING IN PERSON
FOR SERVICE RENDERED TO
 ALEX SPENCER
 109 HARBOR DR
 ST MICHAELS MD 21663
 2933208585

JAN BILLING
JAN 03, 1986

RESIDENTIAL ELECTRIC - WINTER

ENERGY
 TO JAN 2 33445 ACTUAL READING
 FROM DEC 2 32128 ACTUAL READING
 TOTAL OF 1317 KWH FOR 31 DAYS

CHARGES
 ENERGY 1,000 @ 6.7760¢ = 67.76
 317 @ 4.6520¢ = 14.75
 CUSTOMER CHARGE 3.00
 FUEL RATE 1,317 @ 2.1510¢ = 28.33
 ENVIRONMENTAL SURCHARGE .01
TOTAL 113.85

AMOUNT NOW DUE
\$113.85

LATE PAYMENT
APPLIED AFTER
JAN 28

YOUR ACCOUNT
NUMBER
2-74-00574-3-0

*Pd 1/7/86
 Dec. 1985 bill
 \$113.85*

PREVIOUS AMOUNT DUE 106.04
 PAYMENTS (THANK YOU) 106.04
 BALANCE FORWARD .00
 ENERGY BILLING 113.85
AMOUNT NOW DUE 113.85

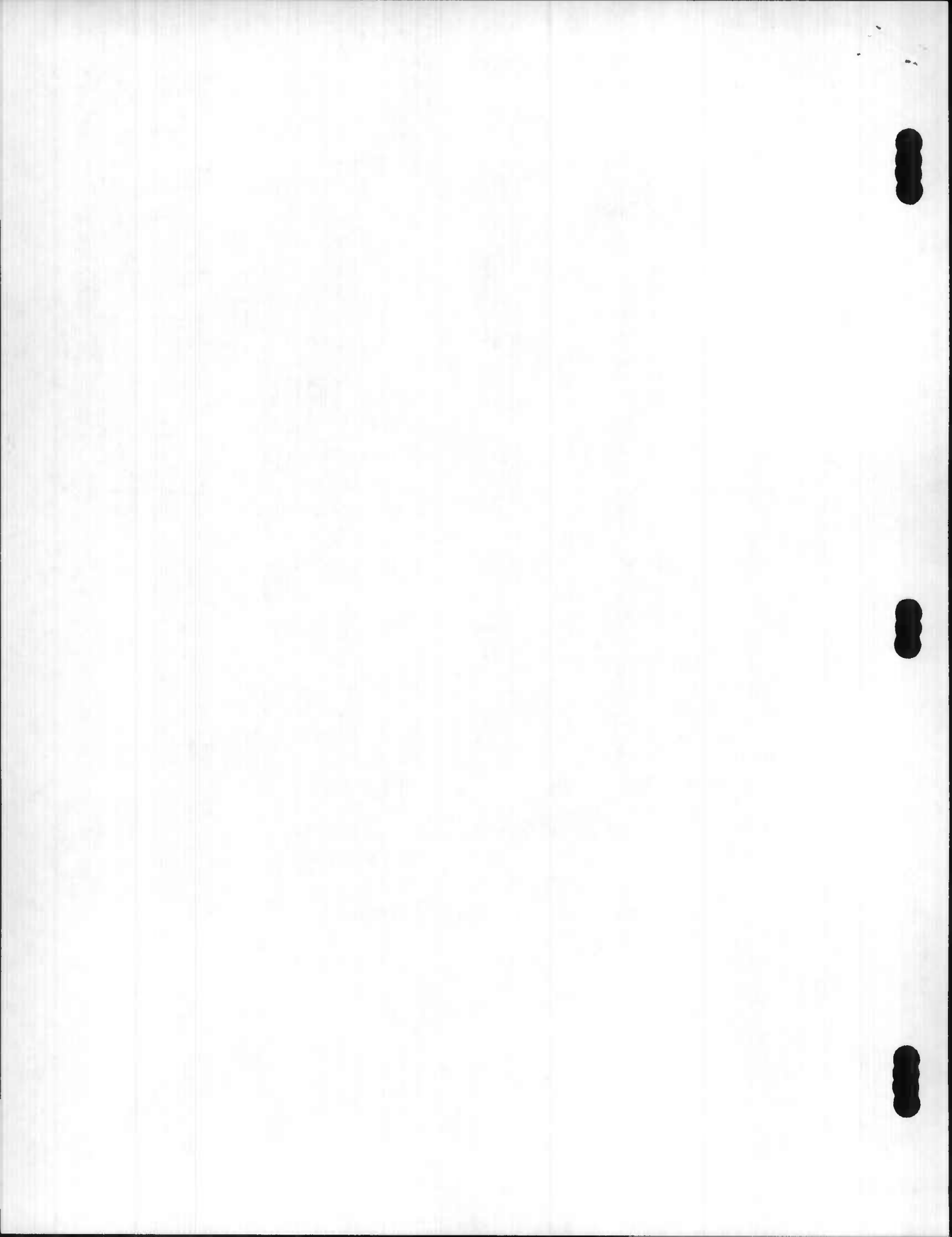
NEXT SCHEDULED METER READING DATE
 JAN 30, 1986

IF YOU HAVE ANY QUESTIONS PLEASE
 CALL 301-745-9400 OR WRITE US AT
 P.O. BOX 176 ST. MICHAELS MD 21663

ELECTRIC COMPARISON

	<u>AVERAGE COST PER DAY</u>	<u>AVERAGE KWH PER DAY</u>	<u>TOTAL KWH</u>
JAN 86	\$3.67	42	1317
DEC 85	\$3.21	36	1182
JAN 85	\$3.68	46	1512

PLEASE SEE BACK OF BILL FOR FURTHER DETAILS



INFLATION RATES

1985	3.8%
1984	4.0%
1983	3.8%
1982	3.9%
1981	8.9%
1980	12.4%

Five year Period: 1980 through 1984 = 37.28%

Five year Period: 1981 through 1985 = 26.40%

AT 11/15/13

11/15



Continued

11/15/13

Date: DATE: January 31, 1986
Subject: RE: Delmarva Power Residential Comparison
From: FROM: Steven C. Lengkeek
To: TO: Those Listed Below

The attached is a comparison of Delmarva Power's charges for residential service to those rendered by our thirteen (13) wholesale Customers and fourteen (14) other selected area utilities for the billing month of December, 1985. This chart also shows the ranking of the bills with (1) being the highest.

This comparison will be prepared and forwarded on a monthly basis.

If you have any questions, please call me on (302) 429-3729.

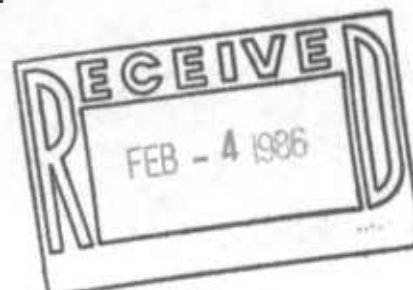
Steven C. Lengkeek
Steven C. Lengkeek
Analyst of Tariff Design
and Load Research

SLC/bw
attachment

To:

Berlin, Maryland
Clayton, Delaware
Denton, Maryland
Dover, Delaware
Easton, Maryland
Ellendale, Delaware
Greenwood, Delaware
Lewes, Delaware
Middletown, Delaware
Milford, Delaware
New Castle, Delaware
Newark, Delaware
Parksley, Virginia
Seaford, Delaware
Smyrna, Delaware
St. Michaels, Maryland

Mr. Frank Snyder
Mayor James T. Vaughn, Jr.
Mr. Gordon Mears
Mr. Robert Bartolotta
Mr. Roger Judd
Mr. Lawrence Houseman
Mr. E. Paul Bienvenue
Mr. Ronald Donovan
Ms. Betty Burge
Mr. John F. Frederick
Mr. Edward J. Murphy
Mr. Peter Marshall
Mr. Vernon Brinkley
Mrs. Delores J. Slatcher
Mr. Edward R. Stiff
Mr. W. Nicholson



RECEIVED
10-4-31

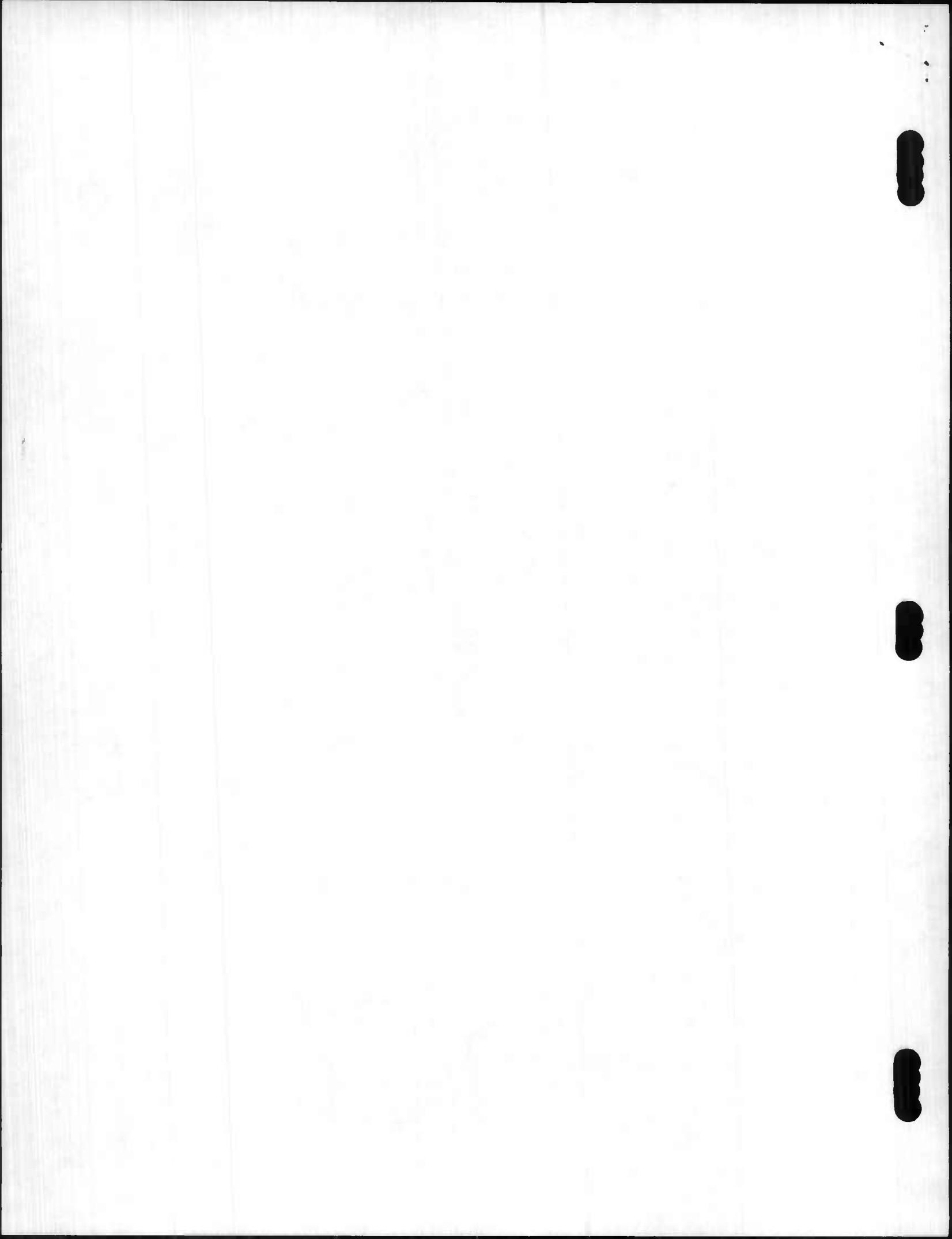
COMPARISON OF RESIDENTIAL ELECTRIC RATES FOR 30 AREA UTILITIES
FOR THE BILLING MONTH OF DECEMBER, 1985

	R 500 kWh \$	R-WH 750 kWh \$	R-WH 1000 kWh \$	R-SH 1500 kWh \$	Annualized 750 kWh Monthly Bills \$
Delmarva Power:					
Delmarva - Delaware	51.43 (9)	72.29 (10)	93.15 (11)	109.04 (19)	74.14 (9)
Delmarva - Maryland	48.22 (14)	70.82 (13)	93.43 (8)	128.04 (7)	71.47 (13)
Delmarva - Virginia	58.50 (2)	77.54 (2)	96.57 (4)	134.65 (5)	78.77 (5)
DP&L Resale Customers:					
A&N Electric Coop	46.50 (15)	65.97 (15)	82.37 (16)	115.18 (16)	65.97 (15)
Choptank Electric Coop	43.24 (20)	62.49 (17)	81.74 (17)	120.24 (14)	63.93 (17)
Delaware Electric Coop	46.39 (17)	64.57 (16)	82.75 (15)	115.74 (15)	65.41 (16)
Town of Berlin	42.68 (22)	58.59 (22)	74.50 (22)	106.31 (21)	59.35 (23)
Town of Clayton	49.79 (12)	72.18 (12)	94.58 (7)	139.38 (2)	72.18 (12)
Town of Lewes	39.90 (25)	55.35 (28)	70.80 (27)	101.70 (24)	55.35 (28)
Lincoln & Ellendale El. Co	54.61 (5)	73.96 (7)	93.31 (10)	123.01 (10)	75.21 (8)
Town of Middletown	50.72 (10)	72.18 (12)	89.43 (14)	123.93 (9)	73.51 (10)
City of Milford	52.45 (8)	73.80 (8)	95.15 (5)	137.84 (3)	75.67 (7)
City of Newark	46.41 (16)	61.13 (19)	75.86 (20)	105.31 (22)	63.20 (18)
Town of New Castle	48.25 (13)	69.88 (14)	91.50 (12)	134.75 (4)	69.88 (14)
City of Seaford	41.87 (24)	58.37 (23)	71.38 (26)	97.38 (27)	60.92 (20)
Town of Smyrna	49.86 (11)	72.45 (9)	95.04 (6)	126.29 (8)	72.45 (11)
Other Local Utilities:					
Appalachian Power	32.70 (29)	46.42 (29)	59.21 (30)	82.05 (30)	46.42 (29)
Atlantic City Electric	57.49 (3)	75.40 (6)	93.31 (10)	129.13 (6)	79.08 (4)
BG&E (Balt. Gas & Elect.)	42.16 (23)	55.84 (27)	69.52 (28)	96.88 (28)	57.77 (24)
Conowingo Power Co.	53.17 (7)	75.72 (4)	98.26 (3)	122.45 (12)	76.78 (6)
City of Dover	44.45 (18)	62.05 (18)	79.65 (18)	113.56 (17)	62.92 (19)
Easton Utilities Comm.	39.51 (27)	56.93 (25)	74.34 (23)	103.03 (23)	56.93 (26)
Jersey Central P&L Co.	56.84 (4)	82.89 (1)	108.93 (1)	152.97 (1)	85.54 (1)
Metropolitan Edison Co.	39.62 (26)	56.34 (26)	73.05 (25)	106.47 (20)	56.34 (27)
Penna. Power & Light Co.	42.90 (21)	59.94 (20)	76.98 (19)	111.05 (18)	59.94 (21)
Pepco - Md.	39.09 (28)	57.14 (24)	75.18 (21)	101.34 (25)	57.14 (25)
Phila. Electric Co.	59.74 (1)	75.52 (5)	91.30 (13)	122.85 (11)	80.70 (2)
Potomac Edison - Md	32.20 (30)	46.07 (30)	59.95 (29)	87.69 (29)	46.07 (30)
Public Ser. Elec. & Gas	54.12 (6)	77.19 (3)	100.25 (2)	121.64 (13)	80.64 (3)
Vepco - Va.	43.51 (19)	59.88 (21)	73.19 (24)	98.28 (26)	59.88 (22)

30 Utility average for 750 kWh = \$65.63
30 Utility Standard Deviation (+/-) = 9.51

\$66.79
10.26

() Utility ranking, (1) being highest. All amounts include current base and fuel rates and appropriate tax, if any.



FEBRUARY 25, 1986

The St. Michaels Utilities Commissioners met with The Commissioners of St. Michaels on Tuesday, February 26, 1986. Members present were Utilities Commissioners Alex Spencer, Alfred Millard and William A. Morse, Town Commissioners Irene Daffin, Edward Morris, Richard Brown and Ernest McMahon, and Utilities Secretary Roberta H. Marshall.


Mr. Spencer called the meeting to order at 3:05 P.M. For the benefit of the Town Commissioners, he summarized the meeting the Utilities Commissioners had with William Corkran, David Mann and Delmarva officials on February 4, 1986. The factors to be considered for revision of the annual rent were discussed. It was noted that Delmarva is interested in buying the system, and the advantages and disadvantages of selling the Utilities were noted.

The group then turned to the matter of investment of the Sinking Fund. The final two and one-half year Smart Saver Certificate, as well as a Maryland National Bank CD, will mature on March 19, 1986. At that time the Sinking Fund will contain \$430,574.04. It was noted that the funds must be secured, and the methods of investment allowed by the Town Charter were reviewed. Mr. Morse agreed to get as much information as possible on various bonds and investments and report back to the group as soon as possible. After all the information is in, the Utilities Commission can contact various banks and agencies for bids on the investment. Their recommendation will then be sent to the Town Commissioners for action.

As soon as information is received from Delmarva on their load factor and the growth of the St. Michaels system in the past five years, another meeting of the Utilities will be held to discuss future negotiations with Delmarva. Mr. Corkran will be asked to attend the meeting, and Mr. Brown agreed to be on hand to represent the Town Commissioners. A letter will be written to Delmarva, informing them of the Commissioners' desire to renegotiate the lease.

Following the departure of the Town Commissioners, an election of officers for the current year was held. On a motion by Mr. Millard, seconded by Mr. Morse, Mr. Spencer was nominated for the office of President. On a motion by Mr. Morse, seconded by Mr. Spencer, Mr. Millard was nominated for the office of Vice President. On a motion by Mr. Morse, seconded by Mr. Millard, Mrs. Marshall was named Secretary-Treasurer. The slate as presented was passed by unanimous vote.

Following another short discussion about the lease agreement, the meeting was adjourned at 4:28 P.M.


Roberta H. Marshall, Secretary-Treasurer



AMOUNT IN SINKING FUND AS OF MARCH 19, 1986

Certificate of Deposit, to mature 3/19/86	\$308,258.92
Smart Saver Certificate, to mature 3/19/86	119,022.98
Savings Account	<u>3,292.14</u>
Total	<u>\$430,574.04</u>



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 UNIVERSITY OF
 CHICAGO
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MAY 7, 1986

A meeting of the St. Michaels Utilities Commission was held on Wednesday, May 7, 1986 at the Town Office Meeting Room at 11:45 A.M. Members present were Alex Spencer, Jack Millard, William A. Morse, and Roberta Marshall. Town Clerk/Manager William B. Nicholson, Jr., William Corkran, Jr. and J. David Mann, Jr. also attended the meeting.

The purpose of the meeting was to discuss the upcoming lease negotiations with Delmarva Power, and the increase in rent to be considered. The first meeting with Delmarva officials will be held at noon on Wednesday, May 21.

Mr. Spencer distributed figures on increases in kilowatt hour sales, revenues, and the number of customers for the St. Michaels distribution system. These statistics were supplied by Larry Wood, Delmarva's district manager for this area, and covered the years 1982 through 1985. The figures were thoroughly discussed, and Mr. Corkran stated that he would like to put the information in graph form in order to see the complete picture as well as to project future trends. Mr. Corkran will meet with Mrs. Marshall on May 14 to get the necessary information together for distribution in advance to Utilities Commission members.

It was agreed that the Commissioners will meet at 10 A.M. on the morning of May 21, before the meeting with Delmarva, to discuss the increase to be asked.

There was no further business, and the meeting was adjourned following a break for lunch.


Roberta H. Marshall, Secretary-Treasurer

MAY 21, 1986


A meeting of the St. Michaels Utilities Commission was held on Wednesday, May 21, 1986 at 10:00 a.m. All Utilities Commissioners were present, as well as Utilities advisors William Corkran and J. David Mann, Town Commissioner Richard Brown, William B. Nicholson, Jr., and Roberta H. Marshall. Purpose of the meeting was to discuss the procedures to be used in opening the negotiations on the lease agreement with Delmarva.

The first order of business was to decide on the amount to be asked at this meeting. Mr. Corkran suggested that the rent for the system be increased to \$425,000 per year. He pointed out that the figure was projected on the 1983-85 trend, using the relationship of the cost of the rental to Delmarva revenues from the St. Michaels system. Mr. Corkran added that the number can be easily defended, and is probably on the conservative side. It was agreed to start with this figure in the negotiations.

Possible arguments that Delmarva might use against the figure were mentioned, as well as other items such as load growth or the inflation factor.

Mr. Spencer then outlined his planned agenda for the noon meeting with Delmarva: he will open the meeting, and then announce the rental amount desired. Mr. Mann will then discuss the lease in general and the logic that was used to arrive at the proposed increase, and Mr. Corkran will follow up with any necessary explanations on the formulas used to arrive at the amount requested.

There was no further business, and the meeting was adjourned at 11:00 a.m.


Roberta H. Marshall, Secretary-Treasurer

MAY 21, 1986

The St. Michaels Utilities Commission met with officials from Delmarva Power to open negotiations to adjust the amount of the lease at Longfellow's Restaurant at noon on Wednesday, May 21, 1986.

Alex Spencer, Jack Millard, William A. Morse, William Corkran, David Mann, Town Commissioner Richard Brown, and Roberta Marshall represented St. Michaels. Representing Delmarva were General Manager of Resale Services Kenneth Jones, Central Region Manager Doug Boyce, Assistant Comptroller James Lavin, Attorney Peter Clark and District Manager Larry Wood.

Mr. Spencer opened the meeting with the statement that the St. Michaels system has shown a considerable growth in the past five years and because of that and other reasons the Utilities feels that the rental amount should be increased to \$425,000 per year.

Mr. Mann explained that the figure is a logical one. He spoke of the original spirit and intent of the lease, and noted that St. Michaels is continuing with that same attitude. He added that the sale of the system was never considered, and it is not now being considered. Mr. Mann pointed out that Delmarva's income has risen considerably over the past five years, and mentioned the growth that has occurred and will continue to occur in the St. Michaels area. In closing, he explained the reasoning for setting that particular amount, and stated that it is a common sense figure.

Mr. Corkran then explained his projections, and noted that he felt that the figure is fair for all concerned.

Mr. Jones stated that he has done only preliminary work on the lease amount at this time, and added that Delmarva cannot come to a decision until such time as they can consider all the factors involved, including overall sales and customers and the consumer price index. He noted that the St. Michaels system growth rate is less than Delmarva's overall system growth rate. Mr. Jones informed the Commissioners that Delmarva may soon be faced with a decline in their revenues, since the Maryland Public Service Commission plans to review their cost of service and their rates in the summer and may order them to reduce their rates.

Mr. Jones stated that two things must be done before there is any change in the lease amount: Delmarva's top management must be convinced that an increase is justified, and Maryland Public Service Commission approval must be obtained. He emphasized that any change must be backed up by accurate figures.

In the interest of efficiency, it was decided that a large group would not be needed at this point to collect the necessary backup figures. Mr. Corkran and Mr. Jones will get together in the near future for an exchange of work papers and ideas.

There was no further business, and the meeting was adjourned.


Roberta H. Marshall, Secretary-Treasurer

NOVEMBER 10, 1986

A meeting of the St. Michaels Utilities Commission was held on Monday, November 10, 1986 at 4:00 P.M. Members present were Alex J. Spencer, Alfred J. Millard and Roberta H. Marshall. William A. Morse was unable to attend.

Mr. Spencer reviewed the negotiations with Delmarva which will result in an annual increase in the rental of the St. Michaels Distribution System from \$230,000 to \$260,000. Mr. Spencer, Utilities Attorney David Mann and Advisor William Corkran attended at least six meetings, either locally or in Wilmington, to complete the negotiations, and Mr. Morse and Mr. Millard were present whenever necessary. Town Commissioner Richard Brown also attended some of the meetings. Due to the confidential nature of the negotiations, no minutes were kept. A copy of the joint filing to the Maryland Public Service Commission has been received and reviewed, and it is ready for the signatures of Town President McMahon and Town Attorney Hickson. The signed document will be delivered to Delmarva before Friday, November 14, and Delmarva's legal department will hand deliver it to the Public Service Commission. PSC approval is necessary for the change in the rental amount.

The Commissioners then turned to discussion of the investment of the 1986 addition to the Sinking Fund. (Backup figures for the amount to be invested, \$95,690.69, are attached to these minutes.) The St. Michaels Bank, Talbot Bank, and Maryland National Bank were contacted for information on their current investment rates. The rates for Certificates of Deposit are currently very low, and the Commissioners felt that it was not advisable to tie up this amount of money for any length of time. In order to get a rate of 6.05 percent, a CD would have to be purchased for a period of over one year. At the present time, it was agreed that the Premium Money Market Accounts at Maryland National Bank are the most attractive. These accounts are fully guaranteed, and are paying 6% compound interest. The money can be withdrawn at any time, without penalty, in case interest rates increase. A letter of recommendation will be sent to the Town Commissioners with the above information.

There was no further business, and the meeting was adjourned at 4:30 P.M.



Roberta H. Marshall, Secretary-Treasurer

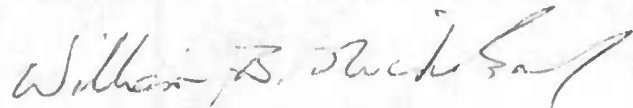
Special Meeting of the
The Commissioners of St. Michaels

October 13, 1986

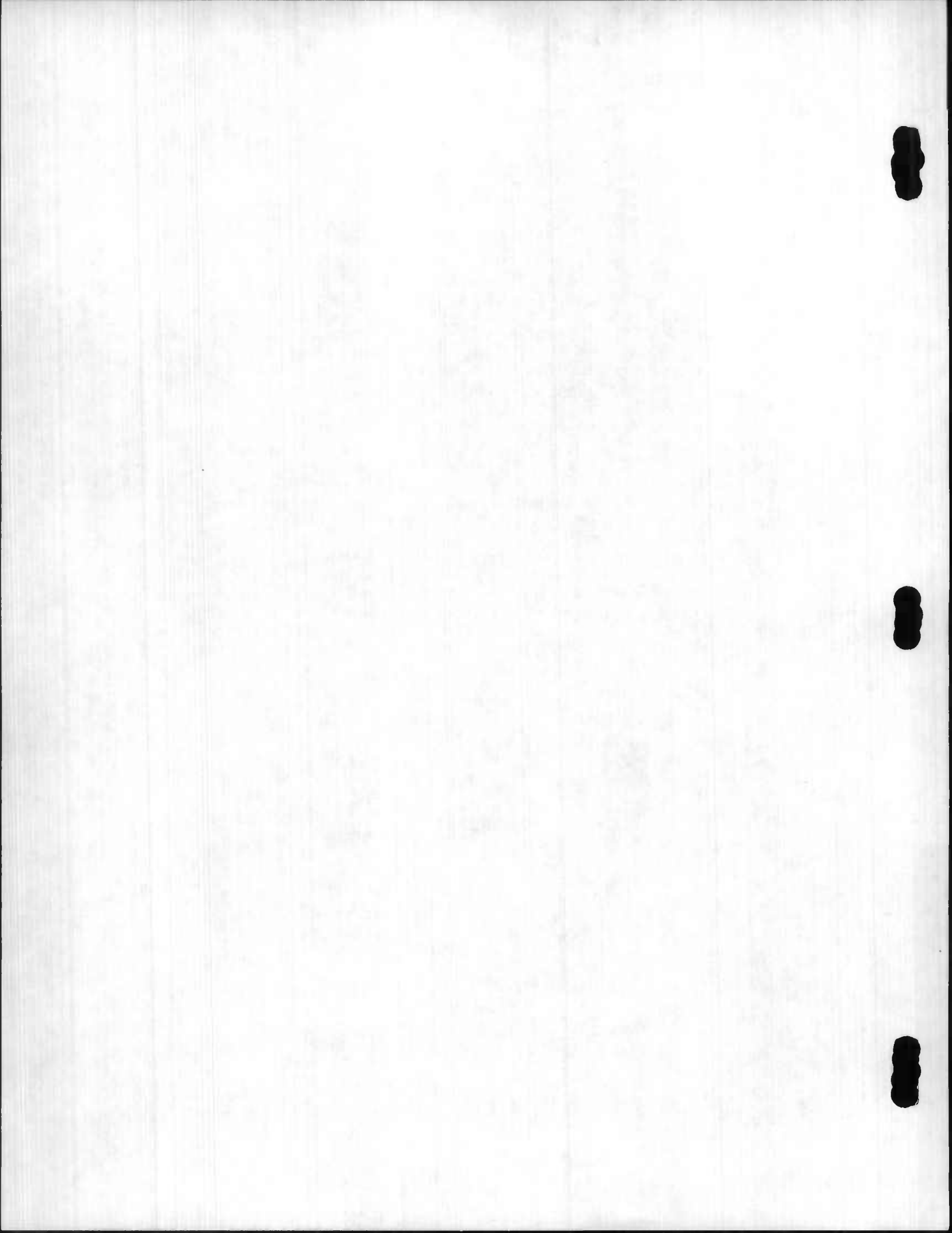
President of the Commissioners Ernest E. McMahon called to order the special meeting at 9:30 a.m. in the Town Office Meeting Room. In attendance were Commissioners Richard E. Brown, Rosella B. Camper, John L. Dunlap and George W. Wilson, Jr. Also in attendance were Town Clerk/Manager W.B. Nicholson, Jr., Alex J. Spencer, President of the Utilities Commission, Jack Millard, a Utilities Commission member and David Mann, and William Corkran, attorney and consultant to the Utilities Commission respectively. The subject of the meeting was the Delmarva lease of the St. Michaels Utility System. David Mann made the initial presentation on behalf of the Utilities Commission. Mr. Mann provided background on the negotiations as they had taken place. Mr. Mann stated that the figures generated by the Commission indicated that an amount between \$280,000 and \$425,000 would constitute a fair settlement. Mr. Mann explained the difficulty in determining what a proper figure was and Delmarva's argument that the declining rate base, meaning the depreciating value of St. Michaels improvements was the controlling factor.

Mr. Corkran brought up the matter of arbitration and provided some insights into the issues which could confront an arbitrator. A lengthy discussion ensued. Mr. Spencer received a phone call from Delmarva headquarters and after the call said he thought that \$260,000 was possible and he would be at the regular Town Commission meeting with a firm figure and a recommendation for action from the Utilities Commission. The meeting was adjourned at 10:45 a.m.

Respectfully submitted,



William B. Nicholson, Jr.
Town Clerk/Manager



ST. MICHAELS UTILITIES COMMISSION

ST. MICHAELS, MARYLAND 21663

November 11, 1986

The Commissioners of St. Michaels
P. O. Box 206
St. Michaels, Maryland 21663

Dear Commissioners:

At our meeting held on November 10, 1986, the Utilities Commissioners discussed various methods to invest the amount to be added to the Sinking Fund for the year ended June 30, 1986.

As you know, the present interest rate is very low. The best rate we could get from any of our local banks was 6.05 percent, and that was for a term of over one year. It is our feeling that the interest rate should start to go up in the near future, and the funds should not be frozen for an extended period.

Therefore, it is our recommendation that the amount of \$95,690.69, which is to be added to the Fund, should be placed in a Premium Money Market Account at Maryland National Bank. This type of account is fully insured, is paying 6 percent interest, and the money can be withdrawn at any time without penalty. In this way, if the interest rates do go up, the money can be immediately reinvested.

The balance of the Sinking Fund, \$430,975.56, is now distributed equally in CDs at St. Michaels Bank and Talbot Bank. Since these will mature in March of 1991, we further recommend that this additional amount, if reinvested later, not be tied up for a period to extend past that date. It is hoped that the fund will be large enough by that time to pay the charges for professional management.

Sincerely,



Alex J. Spencer, President

AJS/m

cc: William A. Morse
Alfred J. Millard

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U.S. GOVERNMENT PRINTING OFFICE

ST. MICHAELS UTILITIES COMMISSION

ST. MICHAELS, MARYLAND 21663

To: Commissioners of St. Michaels

Memorandum Regarding:

1986 Revision in Lease
of Utility Plant to Delmarva Power
Negotiations and Recommendations

On October 15, 1981 St. Michaels leased its electric utility plant to Delmarva Power Corporation for 25 years at an annual rental of \$230,000. The lease provides that, effective on the anniversary date, the amount of the rental shall be subject to revision each five years -- at the request of either party.

In anticipation of the first review date on October 15, 1986, I, as President of the St. Michaels Utilities Commission, asked the Town's Utility Consultant, William H. Corkran, Jr., and J. David Mann, Jr., formerly Attorney for the Utilities Commission and then retired and living in St. Michaels, to examine all facts relevant to the upcoming revision and to advise me and my two colleagues on the Utilities Commission regarding the likelihood of the Town's being able to obtain an upward revision in the annual lease rental.

Pursuant to my request, Messrs. Corkran and Mann reviewed Delmarva's Annual Reports to the Maryland Public Service Commission and other pertinent data and advised me that, while such data did not permit any precise determination of St. Michaels' contribution to the overall income and expenses of Delmarva (and that, in any case, such contribution was extremely small) Delmarva, as a whole, had done very, very well during the period 1980-85 and that it was reasonable to conclude that St. Michaels had contributed to this success. (In this regard, see Exhibit A, prepared by Mr. Mann, reflecting Delmarva's outstanding increase in net income and in earnings per share.)

I concluded that an upward revision in the annual lease certainly seemed appropriate and, to initiate discussions along these lines, invited Delmarva to meet with us to discuss this matter at the same time we were to meet to discuss the company's 10/15/85 Operations Report, submitted to the Town annually

THE UNIVERSITY OF CHICAGO
DEPARTMENT OF CHEMISTRY

REPORT OF THE
COMMISSIONERS OF THE
LAND OFFICE
IN RESPONSE TO
A RESOLUTION PASSED
BY THE BOARD OF LAND
COMMISSIONERS
ON FEBRUARY 1, 1907
RELATIVE TO THE
REVISION OF THE
GENERAL INSTRUCTIONS
FOR THE SURVEY OF
LANDS BELONGING TO
THE STATE OF CALIFORNIA

BY
J. W. GIBSON
COMMISSIONER OF THE LAND OFFICE

ALBANY, N. Y.:
J. B. LIPPINCOTT COMPANY,
1907.

pursuant to the terms of the lease. This initial meeting was held at Longfellow's Restaurant in St. Michaels on November 1, 1985 and Exhibit B hereto reflects the minutes of that meeting.

Following written notification to Delmarva that we wished to renegotiate the amount of the annual lease rental, Messrs. Corkran, Mann and I met first with the other members of the Utilities Commission on February 3, 1986 to outline the position we thought we should take the following day when we were to meet with representatives of Delmarva (see Exhibit C). On February 4 we then met with representatives of Delmarva and explained in general terms our reasons for wanting an increase in rent (see Exhibit D). It was agreed that neither side could speak specifically on the matter until data were collected and analyzed. To this end, Delmarva agreed to assemble for Mr. Corkran such data as he would indicate he would need.

After discussions among Mr. Corkran and technical personnel of Delmarva, these data were obtained and, based upon them, Mr. Corkran reached certain tentative conclusions regarding possible levels of increased rental we should seek. While the details of his studies are not appropriate for this memorandum, he concluded that trending the relationship between St. Michaels' contributions to Delmarva's overall system revenues on any one of several accepted bases would suggest an increase in annual rental to a level of anywhere between \$322,000 and \$425,000. Taking into consideration the expected substantial growth in the St. Michaels area and an upturn in the annual rate of inflation, he and Mr. Mann recommended that we start the negotiations by seeking the higher level.

These conclusions were discussed first with members of the Utilities Commission at 10:00 A.M. on May 21, 1986. Messrs. Corkran and Mann outlined their support for the \$425,000 annual rental and also indicated what opposing arguments would be made by Delmarva (see minutes of May 21 meeting -- Exhibit E). Following that meeting members of the Utilities Commission met with representatives of Delmarva and made their request for an increase in annual rental to \$425,000. As reflected in the minutes of that meeting (Exhibit F), it was agreed that future negotiations should be conducted by a smaller group of people--two or three from each side -- and that all workpapers, etc. would be exchanged within this smaller group.

Throughout the Summer and into early Fall data were exchanged between Messrs. Corkran and Mann and Messrs. Kenneth Jones, Peter Clark, et. al. Five negotiating sessions were held between these two smaller groups -- one in Wilmington and four in

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St. Michaels -- in several of which I participated. While it cannot be said that Delmarva's representatives (particularly Mr. Jones) were not negotiating in good faith, it became increasingly apparent that the studies they presented were not really responsive to our studies and were largely irrelevant to the issue. They had apparently concluded that they would agree to a rental of something like \$245,000 and were unwilling to recognize the validity of our position.

Incidentally, one of our principal differences with the company seemed to arise out of varying estimates of growth. We, therefore, suggested revising the lease agreement to provide for annual determinations of rental on a formulary basis -- allowing decreases as well as increases and eliminating any need for renegotiation each five years. This, we suggested, would take the guess work out of revenue (growth) projections. The company flatly rejected that suggestion.

While Messrs. Corkran, Mann and I had concluded at the outset that we could not possibly get the \$425,000 we contended for, we hoped to be able to get \$300,000. In late September of '86 it became apparent, however, that our only chance of getting an increased rental of that magnitude would be as a result of submitting to arbitration, as is provided for in the lease. Mr. Mann and Mr. Clark, Delmarva's attorney, explored the various aspects of such procedure and considered the legal steps that would be required -- including a Stipulation of Facts to be presented to the Arbitration Panel and procedures for selecting a third person to sit on that panel.

At about that time Delmarva made what it said was its "final offer" -- \$255,000. Mr. Jones, speaking for the company, gave several "reasons" for his position:

1. The Company recognized that St. Michaels' own power costs as well as the rates of its customers had risen.
2. The Company realized, too, that St. Michaels' service territory is growing.
3. However, Capital Expenditures on the St. Michaels system had been high, eg. \$500,000 for tree trimming, the cost of the Miles River crossing, etc.
4. The Company was also concerned over the fact that St. Michaels' rate base is declining and

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that, therefore, even without any increase in rental, the Town will be earning a higher return on its rate base each year. (In this regard, see Exhibit G, the bottom portion of which reflects the correctness of this point.) At \$230,000 annually, Mr. Jones contended, the Town is making more money than ever before.

Faced with the expected cost of arbitrating and delays incident thereto (no increase in rental could be effective absent Maryland Public Service Commission approval -- following arbitration) and based upon Mr. Mann's view that the Arbitration Panel and also the Maryland Commission would give great weight to the "return on rate base" argument, I concluded, as did the other members of the Utilities Commission, that we should accept the Company's offer. (The \$230,000 annual rental represented a return of 19% on a 1980 rate base of \$1,212,056; \$255,000 would represent a return of 27% on a 1985 rate base of some \$950,000.)

Following approval by The Commissioners of St. Michaels, I telephoned Mr. Jones to indicate that St. Michaels would accept an annual rental of \$260,000 and was subsequently told that Delmarva agreed. By letter of October 22, Mr. Jones officially advised me of his company's acceptance (see Exhibit H).

While I should have liked to obtain a larger amount, I am pleased to realize that \$260,000 annually provides St. Michaels a return of 29% on an October, 1986 rate base of \$884,000. To be sure, more is involved than simply return on the Town's investment in plant -- attractive, growing market, absence of competition and regulatory hassle for Delmarva, etc. But, in a litigated case I'm afraid the "bottom line" would have been viewed as simply "how much can Delmarva's customers as a whole be expected to pay for the use of this system".

A parting word or two of advice:

1. As far as future negotiations go -- and the next one is scheduled for 1991 -- I think it is well for those involved to realize that it may be very difficult to build a case that will convince Delmarva that it should pay more than it thinks is has to. We do not deal from a position of real strength. We are not, for example, financially able to out-litigate Delmarva and "hanging tough" requires a willingness and an ability to

"take the company to court" if we have to. Regrettably, those in Delmarva who will succeed Mr. Jones, et. al. will probably be fully aware of this reality.

2. Those who represent St. Michaels in future lease rental renegotiations should make every effort to negate the "return on rate base" argument that will undoubtedly be made again by Delmarva -- next time with even greater force. By 1991 the old St. Michaels facilities will have been depreciated to a level of something like \$758,000. Related to that figure \$260,000 would represent a return on rate base of 34% -- outrageously high by any utility standard.
3. When the lease was negotiated in 1981 the Town was paying less than \$20,000 annually (albeit to the St. Michaels Utilities) for its own power (street lights, etc.). Those of us who negotiated that lease had a \$200,000 "net target" in mind; that is, we wanted the Town to get that much net, after paying Delmarva for the Town's own power needs. Those costs have risen to the point where, by 1991, they could exceed \$60,000 annually. Since \$800,000 in 1991 will be worth substantially less than it was in 1981, because of inflation, it will behoove the 1991 negotiators to hammer hard on the "inflation" argument to get the rental up sufficiently high to permit the Town to still get back the \$200,000 in 1981 dollars.
4. It would seem that negating the "return on rate base" argument could best be done by emphasizing the "value of franchise" point of view. As St. Michaels continues to grow, as the attractiveness of the service area becomes more apparent, the value of the St. Michaels franchise will certainly increase. Everything possible should be done to develop data to quantify and thereby emphasize that fact. Those who represent St. Michaels in 1991 should develop and present, if you will, "Chamber of Commerce-type" data designed to convince Delmarva -- and, if need be the

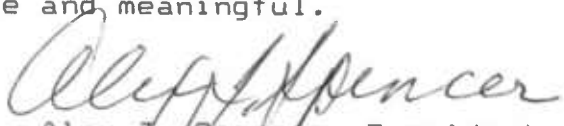
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Maryland Public Service Commission -- that the franchise is a gem worth having and worth paying for.

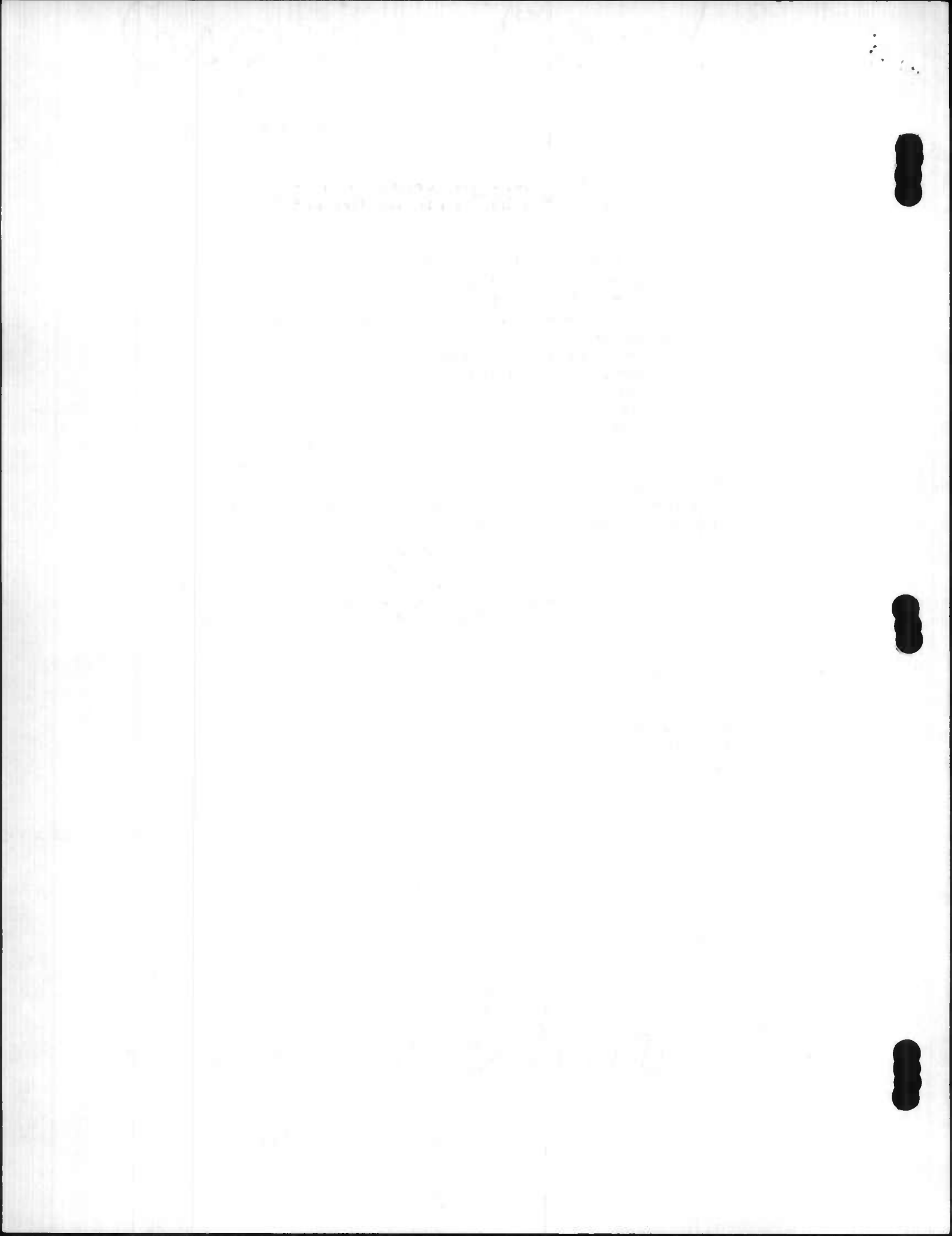
5. Finally, the annual "Review of Operations", supplied by Delmarva on each October 15, in compliance with the terms of the lease, is essentially meaningless when it comes to understanding exactly what has happened in the past year. It provides little if any help insofar as preparation for renegotiating the lease rental is concerned. I have recommended -- and I urge those who will succeed me to work out -- a more meaningful format for this annual report. It is my intention, too, to address a letter to Delmarva in which I will request a conference designed to make this report more understandable and meaningful.



Alex J. Spencer, President
St. Michaels Utilities Commission

September 15, 1987

cc: William A. Morse
Alfred J. Millard
J. David Mann, Jr.
William H. Corkran, Jr.



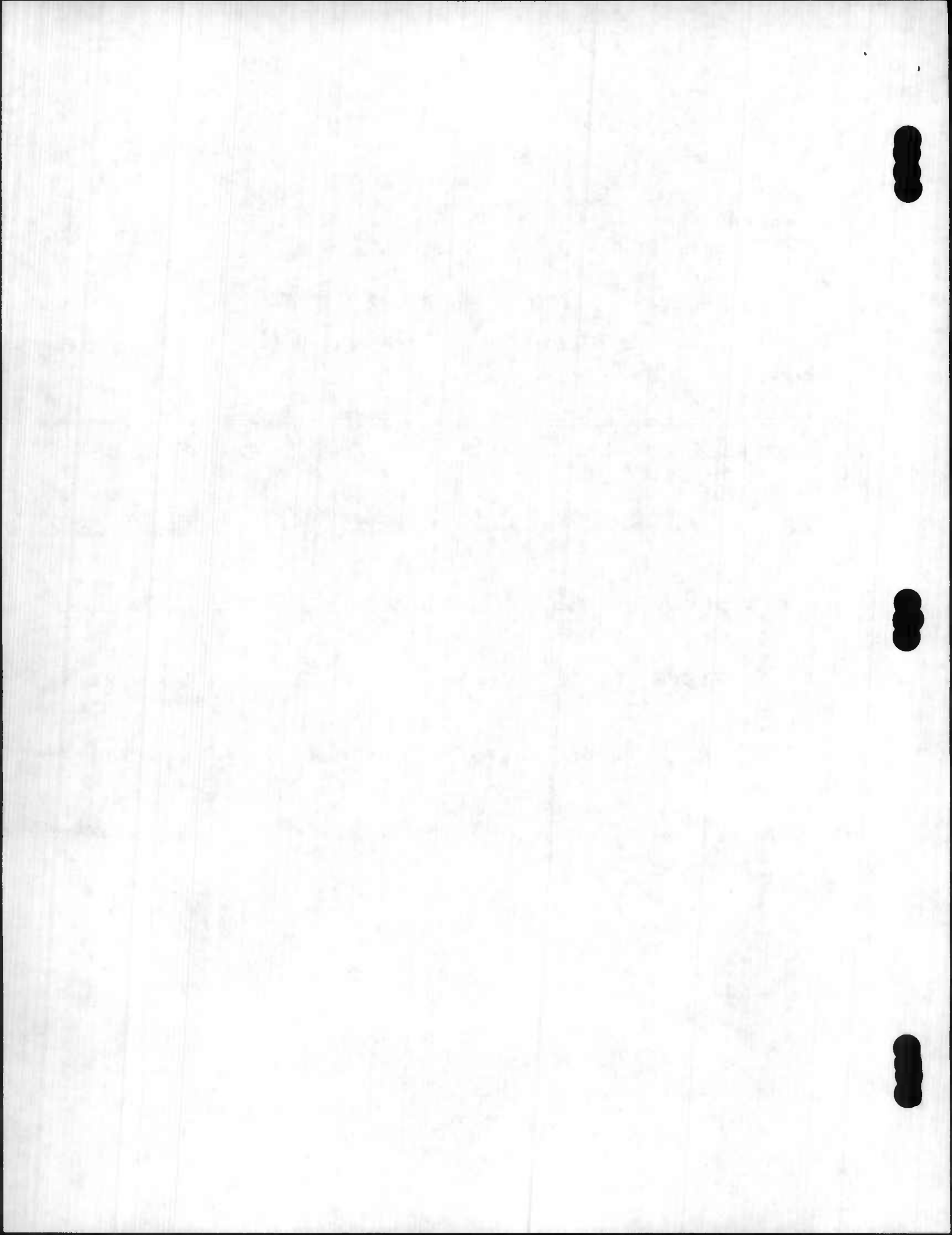
1/30/86

Delmarva

Earnings/share - November/12 mos ; Return on Av. Common Equity ; Depreciation on St. M. Plant (St. M's Ann. Reports) ; Delmarva's Net Income

1980	1981	1982	1983	1984	1985	
1.50	1.73	2.13	2.52	2.60	2.68	E/share - \$
28	11.0	12.0	14.2	15.0	-	Return on Equity
1,212,056	1,189,510	1,134,433	1,025,027	973,764	-	St. M. Plant
28,915	22,546	53,077	111,396	51,273	total 238,252	Depreciation
2.385	1.895	4.670	10.867	5.467	Av. Ann = 3.722%	Dep. %
48,924,850	58,711,326	73,571,566	85,064,291	92,109,171	+ 58.14%	Net Income - DMP.

Exhibit A



Minutes of the annual meeting of the St. Michaels Utilities Commission
and representatives of Delmarva Power & Light
November 1, 1985

The annual meeting of the St. Michaels Utilities Commission and representatives of Delmarva was held at Longfellows Restaurant at 12 noon on November 1, 1985. In attendance were Commission members Alex Spencer and Pat Morse, Town Clerk/Manager W.B. Nicholson, Jr., advisors William Corkran and David Mann and Delmarva representatives Larry Wood and Ken Jones.

Mr. Jones handed out a fact sheet hereby made a part of these minutes showing what had transpired in the St. Michaels electric system during the previous year. Mr. Wood said that over 100 new subscribers had been added to the system in the previous year and that subscribers now amount to around 3,050. The 100 new subscribers had been about the average number of new users in the four years the lease had been in effect.

Mr. Jones said that the Utilities Commission would have to advise Delmarva in writing if they wished to re-negotiate the lease amount. He said Delmarva would be willing to extend the lease at the same amount. If a new amount were to be proposed it would be complicated to determine the profitability of the system but it could be done recognizing that some judgements would be involved.

It was decided that Mr. Spencer would approach Mr. Ray Landon of Delmarva to discuss what might be the best course of action by the Commission. Additional meetings were planned although no dates were set.

Mr. Wood will arrange a meeting for Phase II of the Street light conversion with Mr. Nicholson. It was noted that Phase I had resulted in an annual savings of \$4,585.08. Mr. Nicholson was asked about complaints concerning the change over but there had been only three, one of which was clearly unfounded.

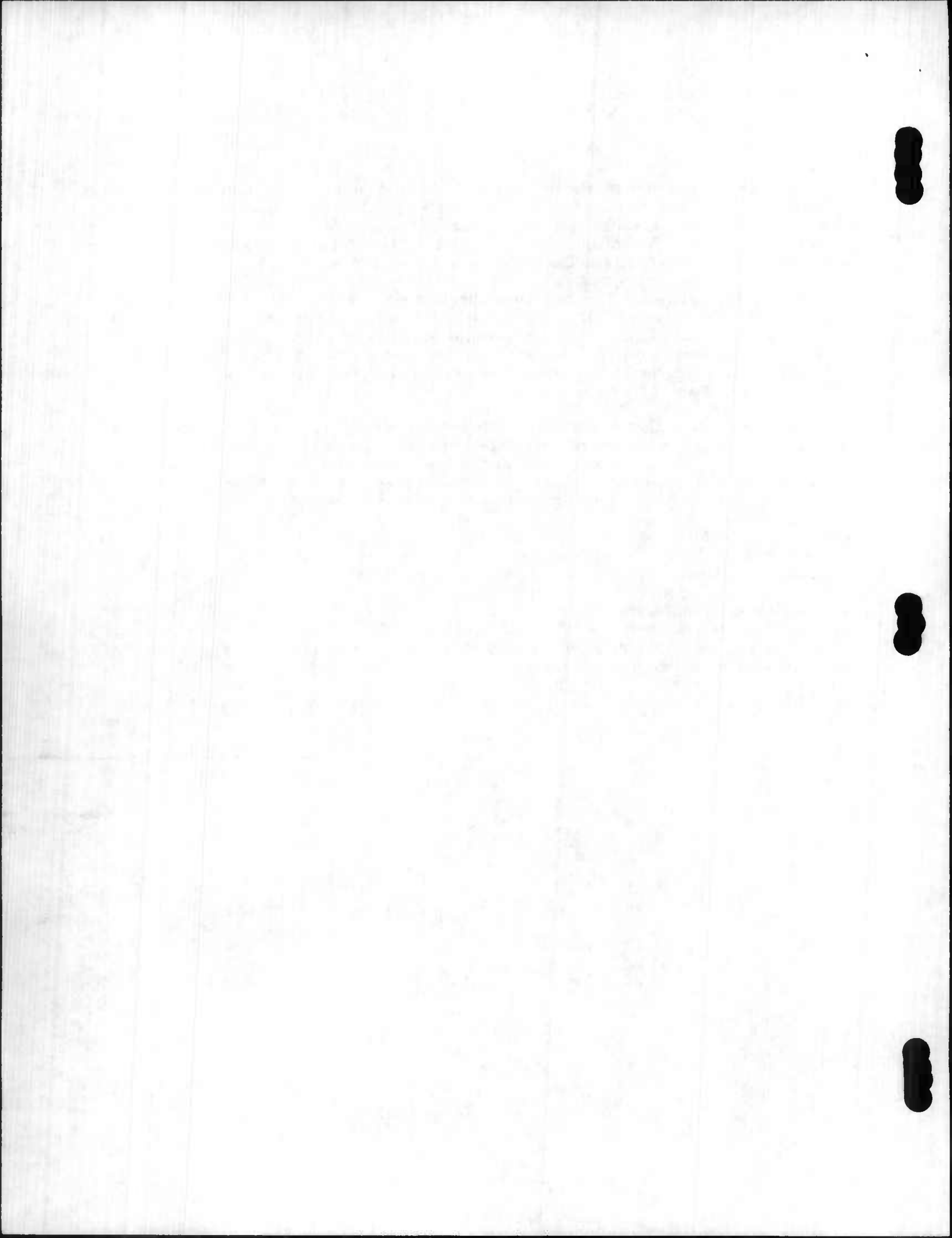
Everyone thanked Mr. Jones for lunch and the meeting was adjourned.

Submitted, _____

William B. Nicholson, Jr.

William B. Nicholson, Jr.

Exhibit B



FEBRUARY 3, 1986

A meeting of the St. Michaels Utilities Commission was held on Monday, February 3, 1986 at 3:00 P.M. in the Town Office Meeting Room. Members present were Alex J. Spencer, Alfred Millard and Roberta H. Marshall. William Corkran, Jr., and J. David Mann also attended the meeting.

The purpose of the meeting was to discuss the upcoming negotiations with Delmarva Power concerning the lease agreement for the St. Michaels distribution system. According to the agreement, the amount paid for rental is subject to revision every five years. Negotiations shall take place no more than 180 days prior to the beginning of each such five-year period. Any revision in the rental amount must be approved by the Maryland Public Service Commission.

Mr. Mann reported that he and Mr. Corkran had been to the Public Service Commission in Baltimore to look at the financial reports filed by Delmarva in the past five years. A copy of their findings is attached to these minutes. They show that Delmarva has shown increasing profits each year of the period, and that the return on their equity is now up to fifteen percent.

Mr. Corkran cited the lease agreement, which gives factors to be considered for a change in the rentals. These are:

1. Changes in the size and character of consumer population in the territory.
2. The effect of such changes on Delmarva's system load factor.
3. Changes in the general rate of inflation.

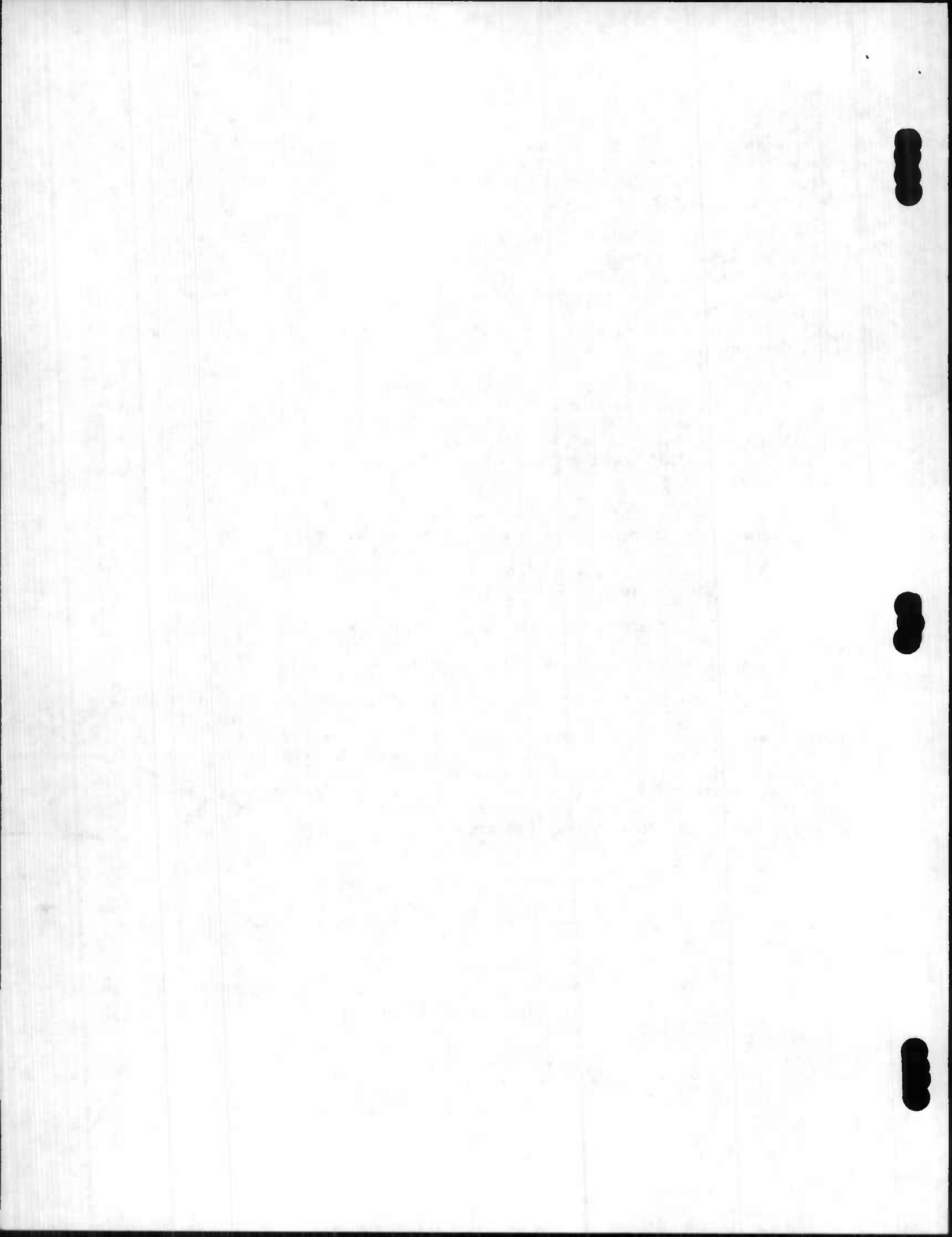
Each of the above factors was thoroughly discussed. It was agreed that all of them will affect the amount of the rent monies. According to Delmarva's St. Michaels manager, Larry Wood, approximately 100 customers per year have been added to the system. ~~It is assumed that the type of~~ customers added have improved Delmarva's load factor. Although the exact rate of inflation for the five-year period is not known at this time, the figure is assumed to be about thirty percent. The exact figure will be gotten before the meeting with Delmarva.

A comparison of the Town's bills for electricity was distributed, and the increase in costs of electricity to individual customers was noted.

There was no further business, and the meeting was adjourned at 4:30 P.M.

Roberta H. Marshall
Roberta H. Marshall, Secretary

Exhibit e



FEBRUARY 4, 1986

In order to start preparations for discussion of the Delmarva lease, the St. Michaels Utilities Commission met informally with Delmarva officials on Tuesday, February 4, 1986. The Utilities Commission was represented by Alex J. Spencer, Alfred Millard, and Roberta Marshall. Utilities advisors William Corkran and David Mann attended the meeting. Vice President Ray Landon, Municipal Sales Representative Ken Jones, and St. Michaels Manager Larry Wood represented Delmarva.

Mr. Spencer explained that the Utilities Commissioners thought it would be a good idea to get together before the time for negotiations, merely to discuss the lease in general.

Mr. Landon agreed, saying that there are no figures available at this point, since negotiations will not start until mid-April. He spoke of the growth rate for the St. Michaels system, and commented that he feels that average use per St. Michaels system residential customer is greater than average residential use on the Delmarva system in general. Mr. Spencer spoke of the construction of the new hotel in St. Michaels, and the addition of rooms to the St. Michaels Motor Inn and to Martingham Inn. He also mentioned the new supermarket that has been built on St. Michaels lines and the large number of new residences that have been built in the area.

Mr. Landon stated that Delmarva has plenty of generating capacity to handle growth. Their long range plans show that they may not have to add another generating station until the year 2000.

Delmarva has agreed to buy out the Lincoln-Ellenboro Electric Company. Mr. Landon explained that they paid market value for the system (approximately \$1,200 per customer), but that the Lincoln-Ellendale net rate base was much smaller than the market value. The Delaware Commission is having trouble justifying the approximately \$1,000,000 acquisition adjustment. Mr. Landon noted that St. Michaels now has a shrinking rate base, and the Commission may want to think about that in terms of the future.

Mr. Landon spoke of Delmarva's present financial picture, stating that it has been very good for the past few years.

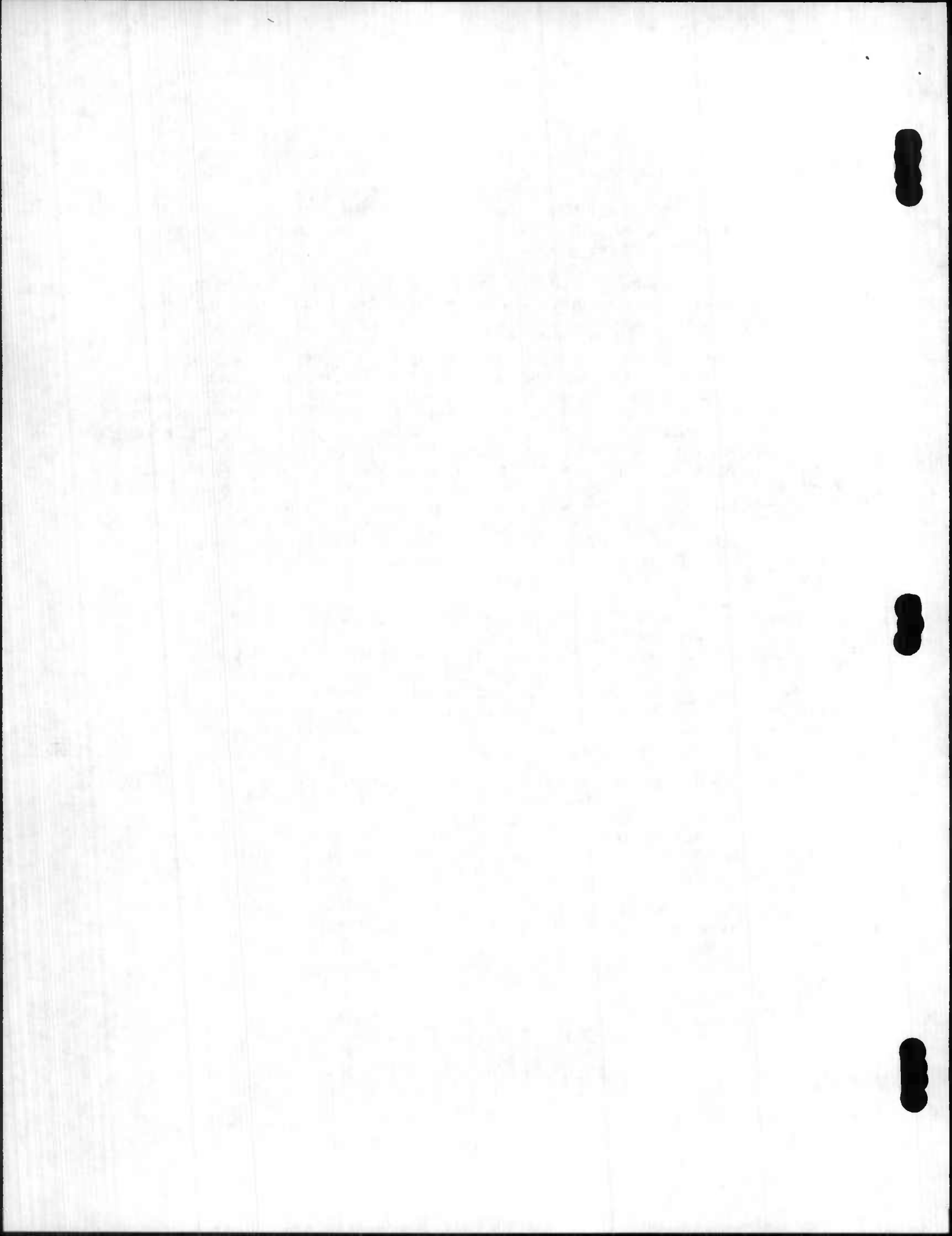
Mr. Jones will begin research on the increase in St. Michaels customers and will determine the load factor in the near future, so that all figures will be available when the negotiations begin.

The Utilities Commissioners will meet with the Town Commissioners in the near future to discuss the coming negotiations.

There was no further business, and the meeting was adjourned at 12 noon.


Roberta H. Marshall, Secretary

Exhibit D



MAY 21, 1986

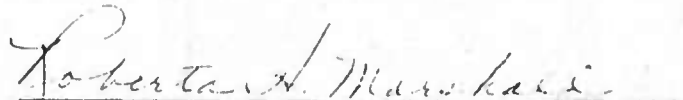
A meeting of the St. Michaels Utilities Commission was held on Wednesday, May 21, 1986 at 10:00 a.m. All Utilities Commissioners were present, as well as Utilities advisors William Corkran and J. David Mann, Town Commissioner Richard Brown, William B. Nicholson, Jr., and Roberta H. Marshall. Purpose of the meeting was to discuss the procedures to be used in opening the negotiations on the lease agreement with Delmarva.

The first order of business was to decide on the amount to be asked at this meeting. Mr. Corkran suggested that the rent for the system be increased to \$425,000 per year. He pointed out that the figure was projected on the 1983-85 trend, using the relationship of the cost of the rental to Delmarva revenues from the St. Michaels system. Mr. Corkran added that the number can be easily defended, and is probably on the conservative side. It was agreed to start with this figure in the negotiations.

Possible arguments that Delmarva might use against the figure were mentioned, as well as other items such as load growth or the inflation factor.

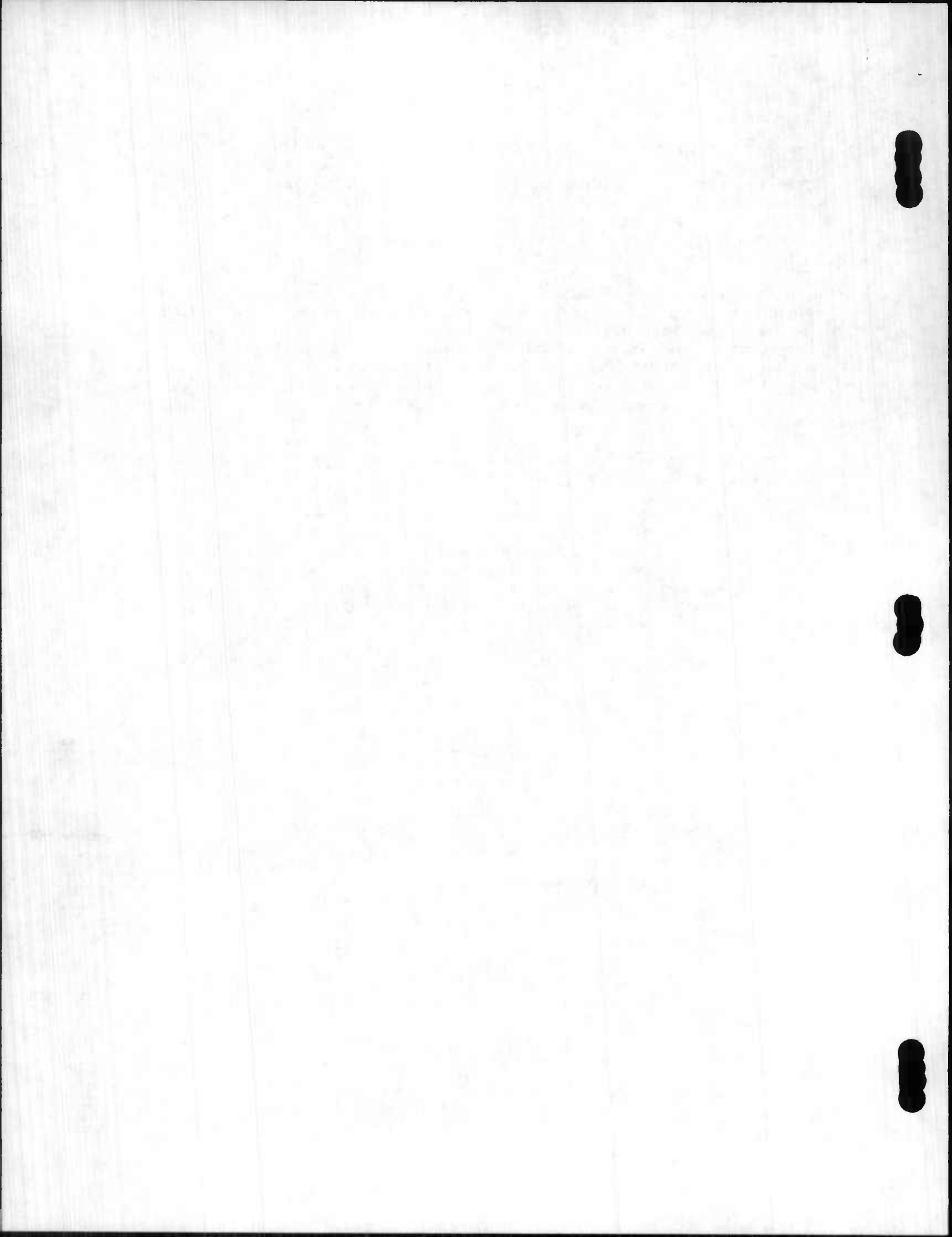
Mr. Spencer then outlined his planned agenda for the noon meeting with Delmarva: he will open the meeting, and then announce the rental amount desired. Mr. Mann will then discuss the lease in general and the logic that was used to arrive at the proposed increase, and Mr. Corkran will follow up with any necessary explanations on the formulas used to arrive at the amount requested.

There was no further business, and the meeting was adjourned at 11:00 a.m.



Roberta H. Marshall, Secretary-Treasurer

Exhibit E



MAY 21, 1986

The St. Michaels Utilities Commission met with officials from Delmarva Power to open negotiations to adjust the amount of the lease at Longfellow's Restaurant at noon on Wednesday, May 21, 1986.

Alex Spencer, Jack Millard, William A. Morse, William Corkran, David Mann, Town Commissioner Richard Brown, and Roberta Marshall represented St. Michaels. Representing Delmarva were General Manager of Resale Services Kenneth Jones, Central Region Manager Doug Boyce, Assistant Comptroller James Lavin, Attorney Peter Clark and District Manager Larry Wood.

Mr. Spencer opened the meeting with the statement that the St. Michaels system has shown a considerable growth in the past five years and because of that and other reasons the Utilities feels that the rental amount should be increased to \$425,000 per year.

Mr. Mann explained that the figure is a logical one. He spoke of the original spirit and intent of the lease, and noted that St. Michaels is continuing with that same attitude. He added that the sale of the system was never considered, and it is not now being considered. Mr. Mann pointed out that Delmarva's income has risen considerably over the past five years, and mentioned the growth that has occurred and will continue to occur in the St. Michaels area. In closing, he explained the reasoning for setting that particular amount, and stated that it is a common sense figure.


Mr. Corkran then explained his projections, and noted that he felt that the figure is fair for all concerned.

Mr. Jones stated that he has done only preliminary work on the lease amount at this time, and added that Delmarva cannot come to a decision until such time as they can consider all the factors involved, including overall sales and customers and the consumer price index. He noted that the St. Michaels system growth rate is less than Delmarva's overall system growth rate. Mr. Jones informed the Commissioners that Delmarva may soon be faced with a decline in their revenues, since the Maryland Public Service Commission plans to review their cost of service and their rates in the summer and may order them to reduce their rates.

Mr. Jones stated that two things must be done before there is any change in the lease amount: Delmarva's top management must be convinced that an increase is justified, and Maryland Public Service Commission approval must be obtained. He emphasized that any change must be backed up by accurate figures.

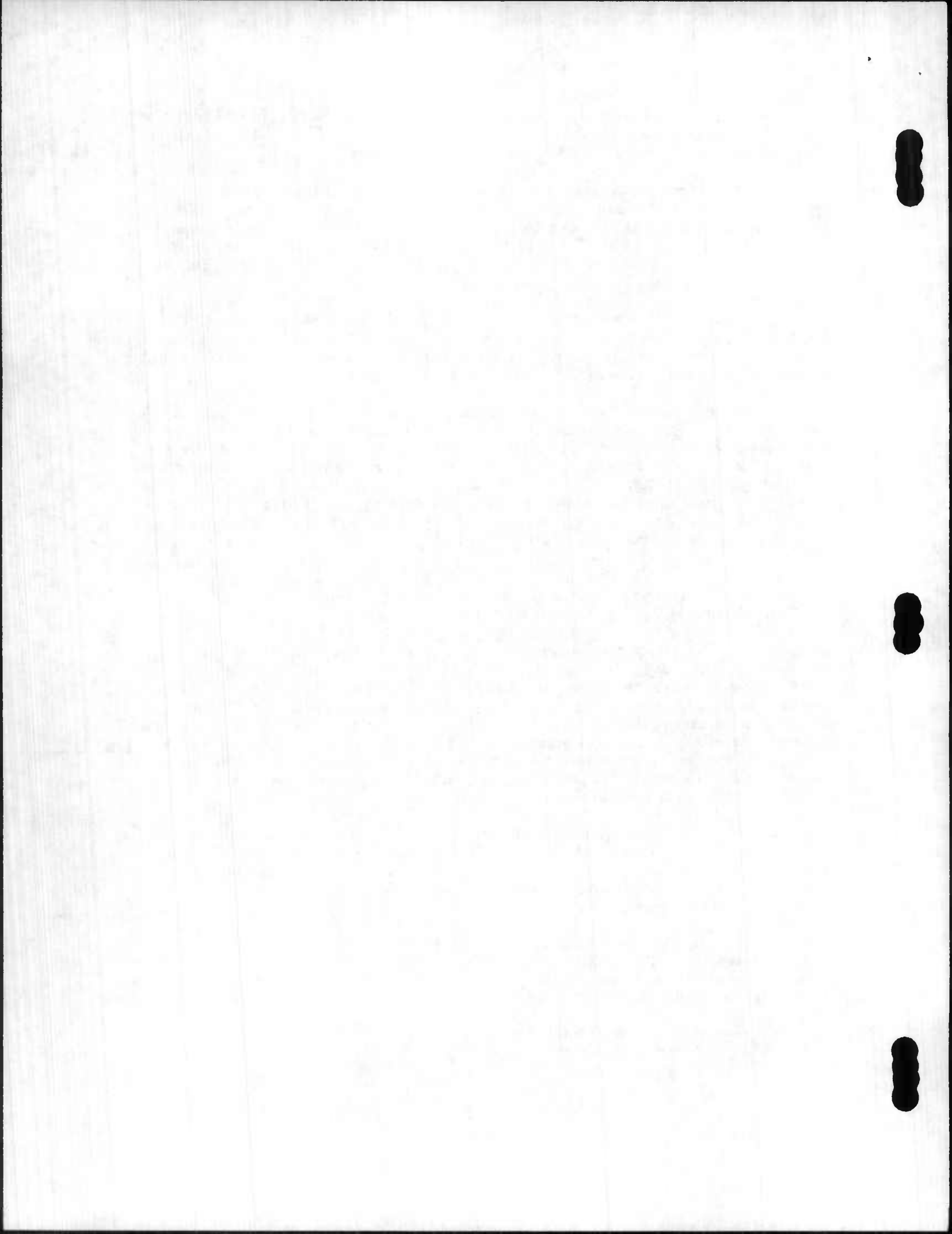
In the interest of efficiency, it was decided that a large group would not be needed at this point to collect the necessary backup figures. Mr. Corkran and Mr. Jones will get together in the near future for an exchange of work papers and ideas.

There was no further business, and the meeting was adjourned.



Roberta H. Marshall, Secretary-Treasurer

Exhibit F



2/3/86

Delmarva Power

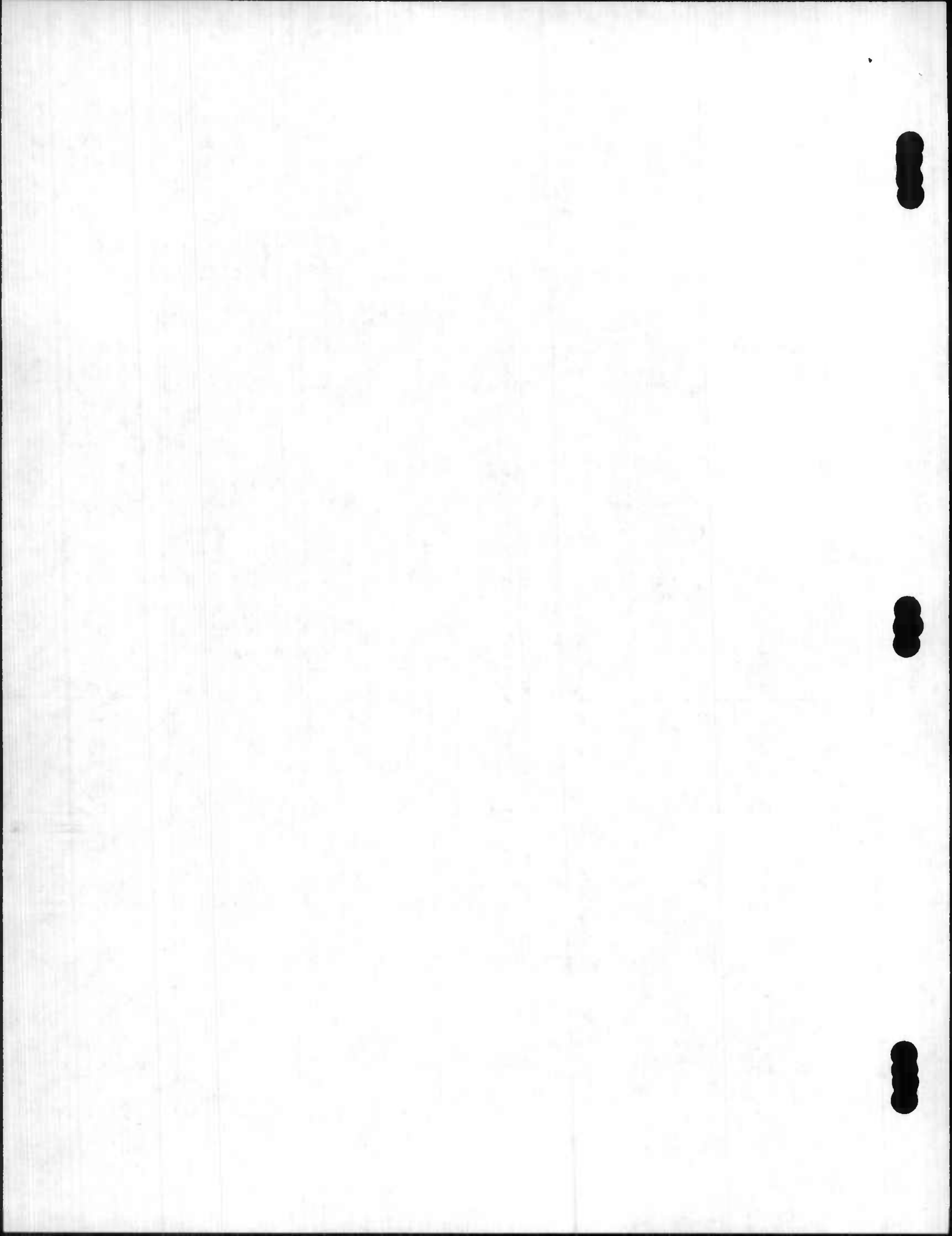
	1980	1981	1982	1983	1984	1985
Net Income ^{1/}	48,956,890	58,711,336	73,571,566	85,064,291	93,109,171	-
Earnings per share ^{2/}	1.50	1.73	2.13	2.52	2.60	2.68
Return on Equity (%) ^{3/}	9.8	11.0	12.0	14.2	15.0	-

- ^{1/} 5 year increase = 88%
 - ^{2/} 6 year increase = 78.6% (5 yr. increase = 73%)
 - ^{3/} 5 year increase = 53%
- All data at November 30; taken from FERC Reports

St. Michaels Utilities

	1980	1981	1982	1983	1984
Net Plant ^{1/}	1,212,056	1,189,510	1,136,433	1,025,037	973,764
Depreciation ^{1/}	28,915	22,546	53,077	111,396	51,273
Deprec. Percentage ^{2/}	2.385	1.895	4.670	10.867	5.467

- ^{1/} Total reduction in net plant - 5 years = \$238,292
 - ^{2/} Average annual depreciation rate = 3.932
- All data taken from Annual Reports to Md. P.S.C.



Kenneth K. Jones
General Manager
Resale Services

800 King Street • P.O. Box 231
Wilmington, DE 19899
(302) 429-3626

September 15, 1986

J. David Mann, Jr., Esquire
Box 190
Riverview Terrace
St. Michaels, MD 21883

Dear Dave:

Enclosed are copies of an updated calculation of the estimated incremental revenue earned by Delmarva Power because of the St. Michaels lease and an updated version of my critique of Bill Corkran's approach to the lease payment issue.

Based on the corrections and adjustments you suggested at our recent session and a revision to the incremental operating cost figure to more accurately reflect current costs, the estimated annual incremental revenue to the Company because of the St. Michaels lease is approximately \$239,000. As I stated previously, Delmarva is willing to increase the lease payment by \$20,000 per year to a total of \$250,000 per year.

Based on what is before us now, it would be difficult to justify a higher payment. I checked on capital expenditures for this year, for example, and was told that these expenditures will be above the \$605,000 budget. The current expectation is that the St. Michaels capital budget this year will top \$700,000. I also reviewed the incremental operating costs and adjusted them to reflect the increased number of customers since the beginning of the lease. I have continued to use the average rate of inflation to bring these costs up to current levels. However, I should note that my analysis of our current costs indicates that a higher amount for this item could be justified.

1942

UNITED STATES

DEPARTMENT OF THE ARMY

OFFICE OF THE ADJUTANT GENERAL
WASHINGTON, D. C.



J. David Mann, Jr., Esquire
September 15, 1986
Page Two

Bill's method, as adjusted, produces a lease payment of approximately \$230,000 when properly credited for the fixed costs associated with the capital which Delmarva has spent in St. Michaels since the beginning of the lease. Also, as I told you at our last meeting, Delmarva paid \$1200 per customer for a small distribution utility in Delaware earlier this year. If Delmarva had purchased the St. Michaels system for the current price per customer, St. Michaels would have received \$2,700,000 (based on the 2250 customers utilized in the Cosgrove testimony at the beginning of this lease). At an 8% interest rate, St. Michaels would receive \$216,000 per year had the sale occurred.

I believe that we will have a better discussion on September 19th if I make some additional comments. First, the Company is unlikely to be persuaded to pay a premium for the right to serve St. Michaels because this arrangement is a lease and ultimately that right to serve reverts to the town. Second, projecting out 2-1/2 years into the next lease period to calculate the appropriate lease payment for that period is not warranted by the language of the lease itself, and doing so involves far too many adjustments, uncertainties and assumptions. Third, the Company's current financial health is the product of factors other than St. Michaels growth over the past five years.

When you consider all of these items, it seems clear to me that \$250,000 is a reasonable lease payment.

Very truly yours,



Kenneth K. Jones

KKJ/dmg

cc: W. D. Boyce
J. P. Lavin
M. L. Wood
P. F. Clark, Esquire

WESTERN
UNIVERSITY

WESTERN
UNIVERSITY

Kenneth K. Jones
General Manager
Retail Services

800 King Street • P.O. Box 231
Wilmington, DE 19899
(302) 429-3626

October 22, 1986

Alex J. Spencer
President, Utilities Commission
of St. Michaels
902 S. Talbot Street
St. Michaels, MD 21663

Dear Alex:

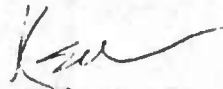
I am pleased to confirm that Delmarva Power's Senior Management has approved the agreement to pay St. Michaels a revised Annual Rent of \$260,000, payable in accordance with Sections 2.2 and 2.3 of the lease between the Company and St. Michaels upon approval of that revised rent figure by the Maryland Public Service Commission.

Enclosed is a draft of the joint application to be submitted to the MPSC for the purpose of securing Commission approval of the revised Annual Rent. As you can see, the application asks for expedited action so that St. Michaels will receive increased rent payments promptly. Please have Dave Mann and the Town's attorney look over the draft and send their comments and suggestions to Peter Clark.

Also enclosed is the final draft of Delmarva Power's annual report to St. Michaels on the operation of the Town's electric system. Please feel free to give me a call if you have questions about the report or if you wish to arrange a time for a presentation based on the report.

I certainly am happy, Alex, that we could come to an acceptable revision in the Annual Rent without the expense and delay associated with litigation. I am looking forward to working with you as Delmarva Power continues to serve St. Michaels.

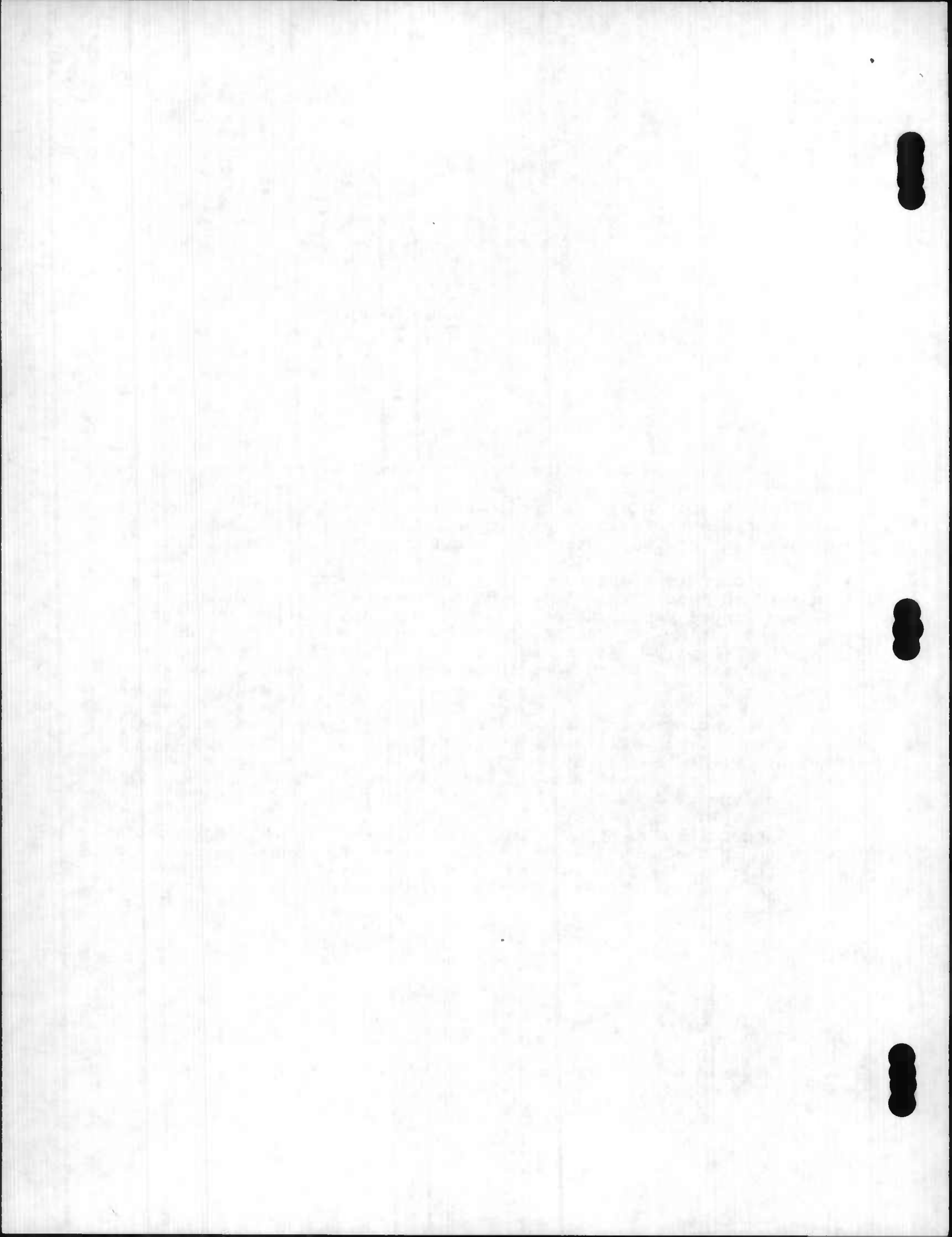
Very truly yours,


Kenneth K. Jones

KKJ/dmg

cc: J. David Mann, Esquire

Exhibit 14



NOVEMBER 10, 1987

Members of the St. Michaels Utilities Commission met with representatives from Delmarva Power for a discussion of the Annual Report at twelve noon on Monday, November 10, 1987. The meeting was held at Longfellow's Restaurant in St. Michaels.

Vice President Ken Jones, Central Regional Manager Doug Boyce and St. Michaels District Manager Larry Wood represented Delmarva. Utilities Commissioners Alex Spencer and Pat Morse attended, as well as Utilities' advisors J. David Mann and William H. Corkran, Jr. Town Clerk/Manager William B. Nicholson, Jr. and Secretary-Treasurer Roberta H. Marshall were also at the meeting.

Mr. Jones presented copies of the St. Michaels Review of Operations for 1987, and pointed out slight changes in its format. Mr. Mann spoke of the lease renegotiations that were held in 1986, and noted that the Annual Review does not contain the type of information needed to give future Utilities Commissioners the information to negotiate the lease intelligently. Although Delmarva supplied figures on KWH sales, number of customers and revenues, etc., upon request, Mr. Mann asked if the information could be supplied on the Annual report, and suggested a meeting be held in the near future so that the desired information could be included.

Mr. Jones stated that he felt certain that Delmarva keeps separate records on the St. Michaels system, and added that it would be advantageous for Delmarva to have the information as well as St. Michaels.

After further discussion, Mr. Jones promised to see just what information is available for addition to the report. He expects to return to St. Michaels on November 10, and will leave details with Larry Wood. Mr. Wood will then contact the Utilities Commissioners to set up a meeting date that will be convenient to all parties.

The meeting was adjourned after lunch.


Roberta H. Marshall, Secretary-Treasurer



NOVEMBER 10, 1988

Members of the St. Michaels Utilities Commission met with representatives from Delmarva Power on Thursday, November 10, 1988 at 11:00 A.M. in the Town Office Meeting Room. Utilities Commissioners Alex J. Spencer and Alfred J. Millard attended the meeting, as well as the Utilities legal advisor, J. David Mann, Jr. Ken Jones, General Manager of Resale Services, Central Regional Manager Doug Boyce and St. Michaels District Manager Larry Wood represented Delmarva. Also present was Roberta H. Marshall, Secretary-Treasurer for the Utilities Commission.

The meeting was called for the purpose of discussing the St. Michaels Review of Operations for 1988. This report is submitted annually by Delmarva.

Mr. Spencer thanked Mr. Jones for mailing the report in advance of the meeting, and for including extra information that had been requested. Comparisons were made with the number of customers and their kilowatt hour usage in 1981 and at the present time. It was noted that there has been a considerable increase in growth within the St. Michaels franchise.

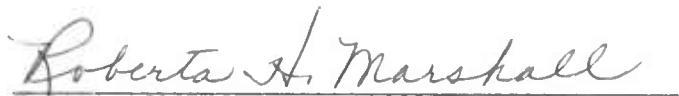
Mr. Jones discussed Delmarva's generating capacity, both at the present time and in the next few years. He noted that two new gas turbines will be coming on the line in the next year, and that the Peach Bottom plant is expected to start back in operation gradually in the next year or so.

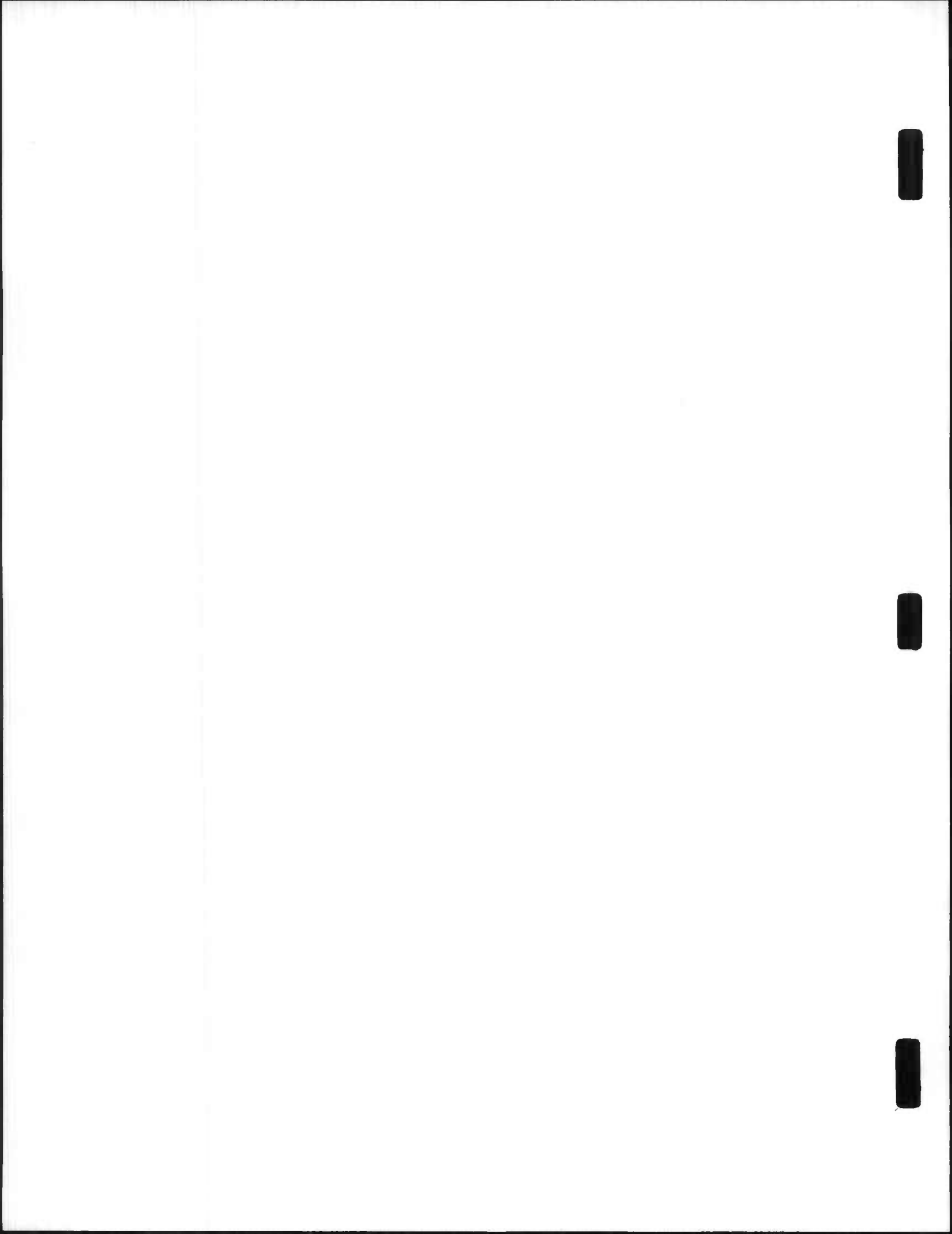
Mr. Spencer informed the group that the first thirty-six units that were built in St. Michaels by the Housing Authority are being converted to electric heat, and opined that they would use a fair amount of additional electricity.

Mr. Mann asked if separate data for St. Michaels can be found in Delmarva's annual report to the Public Service Commission. Mr. Jones informed him that the figures from St. Michaels are combined with all the rest of Delmarva's operations. He assured the group, however, that Delmarva keeps a separate set of records for the St. Michaels operation. On a question from Mr. Mann, Mr. Jones stated that the St. Michaels lease is the only one of its kind in the entire Delmarva system.

Mr. Wood spoke of the new underground distribution lines that are being installed in the Traveler's Rest area. On a question from Mr. Spencer, Mr. Boyce gave general information on the approximate life of underground lines, and explained that they are monitored carefully for signs of wear. Much data is being kept on manufacturers, experience, and factors which have caused faulting in the lines. He noted that lines that are installed now are hopefully good for twenty-five to thirty years. Delmarva is insisting on tighter specifications for the underground cable, and testing new cable as it comes in and before it is installed. Although copper has been used in the past, Delmarva is now installing nothing but aluminum. He closed by noting that cable replacement will probably become routine, just as pole replacement is now.

The group adjourned at 12:10 P.M. for lunch.


Roberta H. Marshall, Secretary-Treasurer



TOWN OF ST. MICHAELS, MARYLAND

COMPARISON OF ELECTRIC COSTS

ANNUAL COSTS

<u>FISCAL YEAR</u>	<u>STREET LIGHTS</u>	<u>OTHER USAGE</u>	<u>TOTAL</u>
1988	23,472	17,377	40,849
1987	24,843	17,561	42,404
1986	26,849	18,283	45,132
1985	31,542	17,096	48,638
1984	27,506	16,009	43,515
1983	26,563	13,652	40,215

Note: Five-year plan to replace the old mercury-vapor street lights with high-pressure sodium lights was started in mid-1985. Three phases have been completed; Phase 4 is scheduled for this month.

Included in street light costs are the metered charges for street lights on St. Mary's Square and on West Chestnut Street. These costs have remained fairly constant in the past few years, averaging \$1,500 per year.

Other Usage includes charges for water pumping (average of \$12,584 per year) and for municipal buildings (\$4,682 per year).

Figures for 1982 were not included since it was only a partial year.

COMPARISON OF MONTHLY CHARGES FOR STREET LIGHTS

July 1988	\$1,780.50
July, 1987	\$1,911.47
July, 1986	\$2,005.76
July, 1985	\$2,143.80
July, 1984	\$2,251.19
July, 1983	\$2,087.81

Note: The above figures do not include charges for St. Mary's Square and West Chestnut Street.

1900

1901

1902



TOWN OF ST. MICHAELS, MARYLAND

ANALYSIS OF SINKING FUND

FUND BALANCE

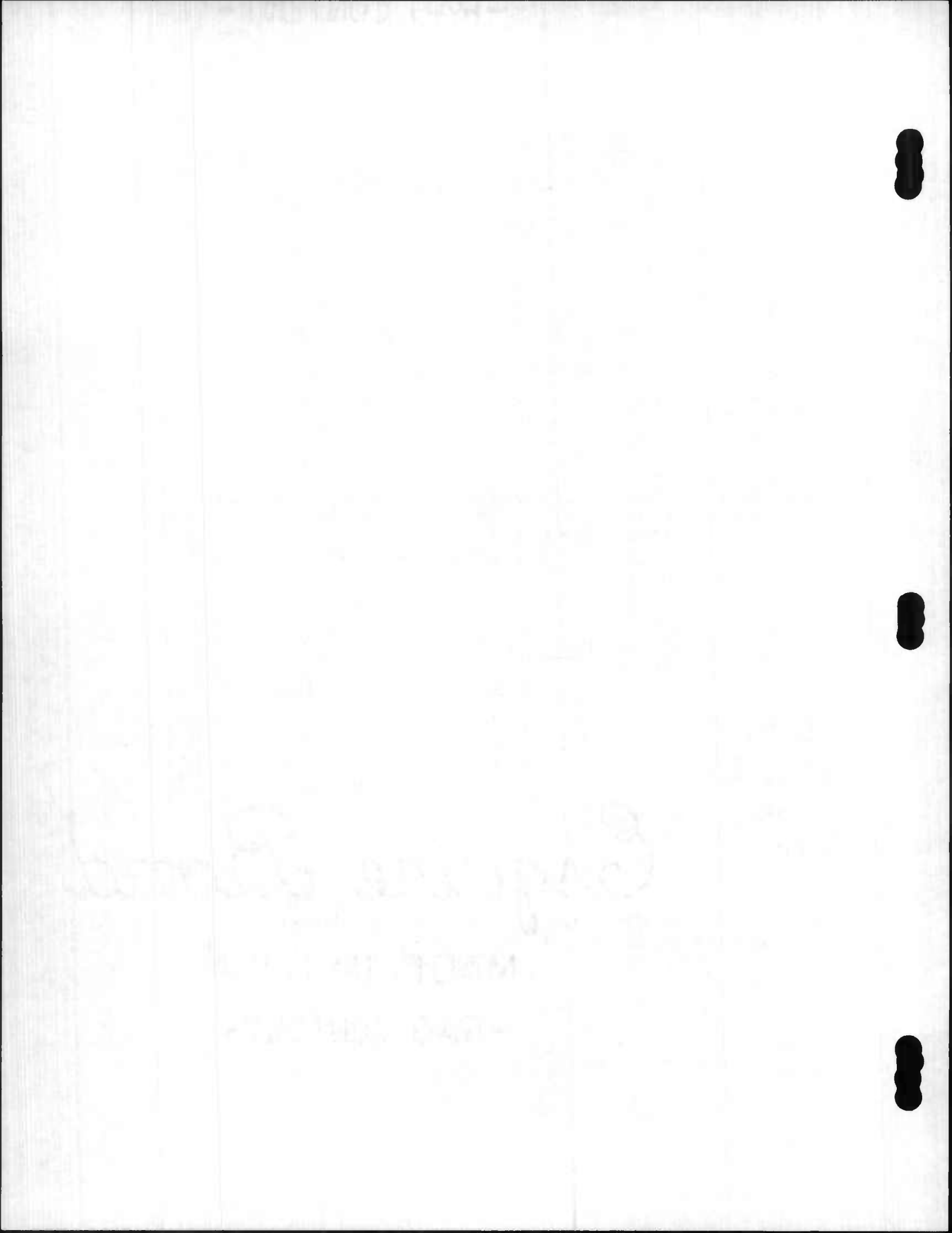
Original Sinking Fund	\$ 40,000.00
Transfers, 1982 thru 1987	655,016.96
	<u>\$ 695,016.96</u>
Transfer to be made for 1988	194,494.28
<u>TOTAL FUND BALANCE</u>	<u>\$ 889,511.24</u>

Note: As required in the charter, the sum of \$5,000 plus the costs of electricity will be deducted from rent monies for the year ending June 30, 1989. After that, the full amount of Delmarva's rental payments, less costs for electricity, will be transferred to the Sinking Fund.

PRESENT SINKING FUND INVESTMENTS

	<u>Maturity Date</u>	<u>Interest Rate</u>	<u>Amount</u>
St. Michaels Bank	3/19/91	9½ %	\$215,487.78
Talbot Bank	3/19/91	9½ %	215,487.78
St. Michaels Bank	3/19/91	8½ %	95,690.69
St. Michaels Bank	3/19/91	8¼ %	168,350.71
			<u>\$695,016.96</u>
1988, to be transferred from General Fund			194,494.28
<u>TOTAL</u>			<u>\$889,511.24</u>

Note: On the four CD's listed above, the interest paid to the General Fund was during the year ended June 30, 1988 was \$52,875. This amount will be increased in the coming year after the 1988 transfer is made.



ST. MICHAELS UTILITIES COMMISSION

ST. MICHAELS, MARYLAND 21663

May 16, 1988

Mr. Kenneth K. Jones
Vice President, Planning
Delmarva Power
800 King Street
Wilmington, Delaware 19899

Re: Electric Utility System Lease
St. Michaels — Delmarva

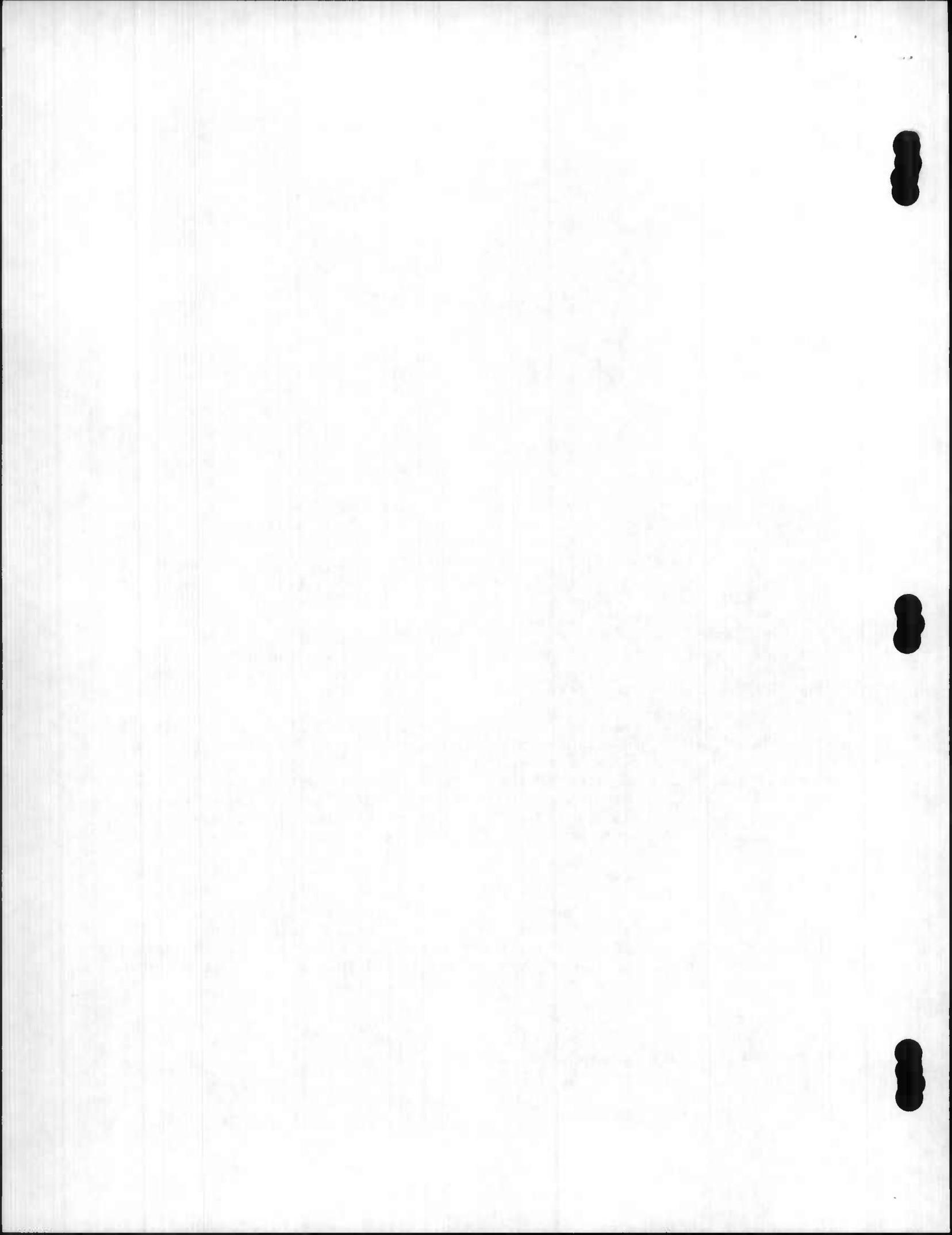
Dear Ken:

You will remember that, at the time of the first 5-year renegotiation of the subject lease, your representatives and ours had considerable difficulty agreeing on precisely what factors should enter into a determination of a fair annual rent to be charged during the second five-year term. The lease itself, Section 2.3, says that: "Factors that may be considered in revising the Annual Rent shall include, without limitation, changes in the size and character of the customer population within the Service Territory, the effect of such changes on Delmarva's system load factor and changes in the general rate of inflation". We had little difficulty determining the general rate of inflation but the other factors were very hard to evaluate and agree upon — primarily because we had no data available to us.

In this regard, we examined the several "Review of Operations" reports which Delmarva has submitted to St. Michaels on October 15 of each year but, even with the help of your representatives, the negotiators weren't able to obtain much guidance from those reports. Even such seemingly simple information as "customer growth" within the St. Michaels franchise area was hard to ascertain. In a word, we seemed to be negotiating out of ignorance rather than on the basis of fact — our representatives, I'm afraid, more so than yours.

When we met here in St. Michaels at lunch this past November 10, we discussed this matter and had the impression that Delmarva agreed with us that this situation should be remedied; that the next renegotiation should be conducted with more facts at the disposal of both sides and that we should work toward developing a new form of "Review of Operations" that would be more informative generally and of greater help in 1992.

Toward this end, and with our past negotiating difficulties reasonably fresh in our minds, I suggest that the format of the "Review of Operations" be revised along the following lines:



Introduction

This section might well be used to provide a narrative account of past or projected special events, if any, directly or indirectly affecting the St. Michaels franchise area or which might be of particular interest to the St. Michaels Utilities Commission.

Plant

This section should show (using the next report year as an example):

Net Plant In Service at August 1, 1987

Facilities added during year, including a brief description, where appropriate

Work in progress, including description

Facilities retired during year

Depreciation — for current year and in total

Net Plant in Service at July 31, 1988

Anticipated additions during coming year

Customers

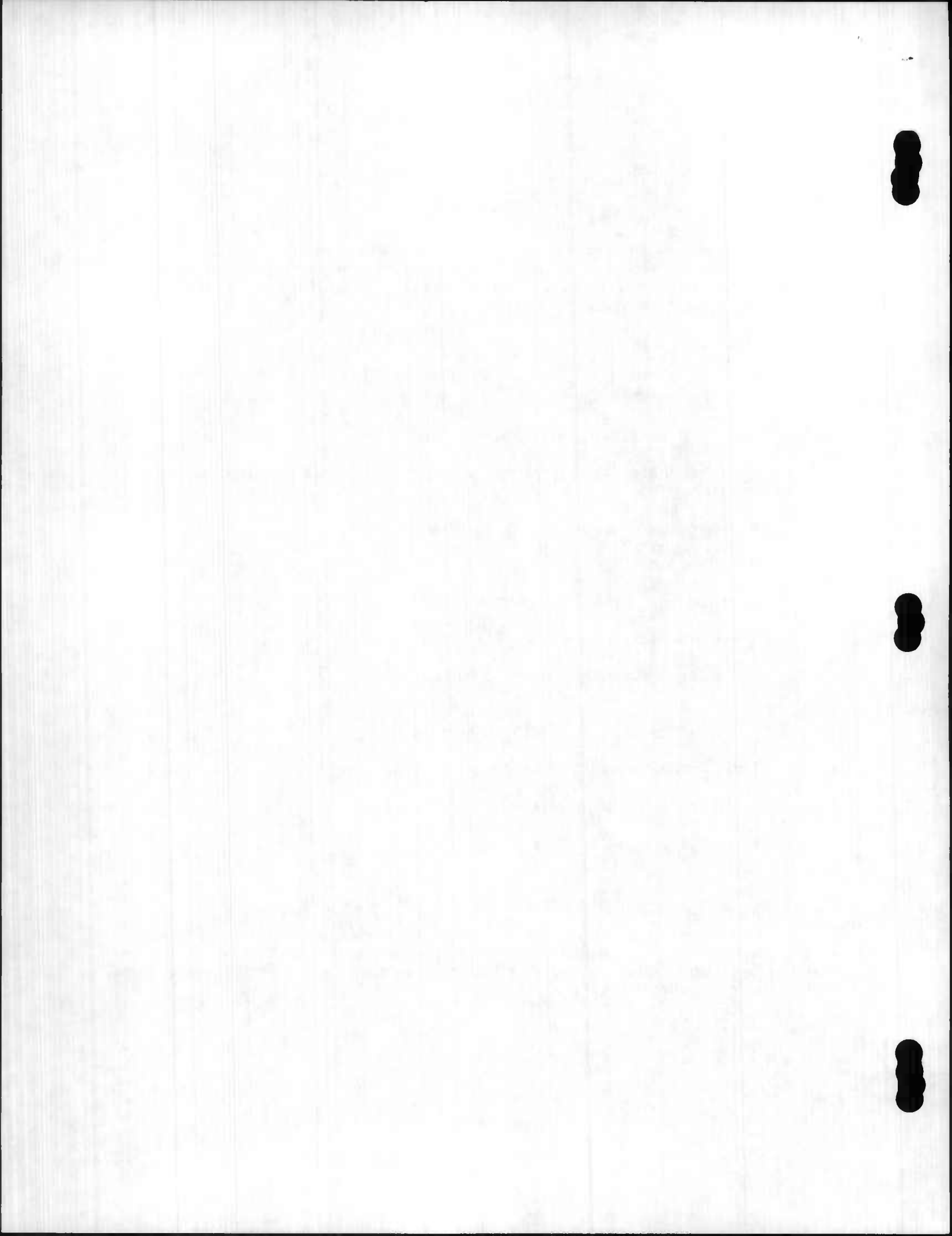
Total and broken down by Rate Schedule Category at 8/1/87

Additions by Category during current year

Totals at 7/31/88

Sales and Revenues

A breakdown of sales in the St. Michaels franchise area by customer or rate schedule category during the current year and revenues produced by same. (Revenue figures, should, of course, indicate what portion represents revenues from collection of the fuel charge.)



Page 3

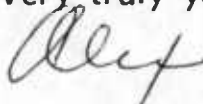
Mr. Kenneth K. Jones

The foregoing represents only a first-draft suggestion of the data which we think would give us all a fair idea of what will have occurred during each year of the lease. Certainly, we want your suggestions regarding additions or deletions. In the end, however, I think we would both agree that data such as these are essential to a meaningful and fair renegotiation of the lease rental in 1992 and in subsequent years.

In addition to such data, we'd also very much appreciate it if your "Review of Operations" could in each instance be accompanied by a copy of your then most recent annual report to the Maryland Commission. We realize we could obtain access to these reports at the Commission's offices but having them here in St. Michaels would save much travel and inconvenience. Since these are, of course, public documents we feel sure you'd not object to our having them.

I look forward to hearing from you on these suggestions and toward working with you in the development of a new, more informative and more readily understood "Review of Operations".

Very truly yours,

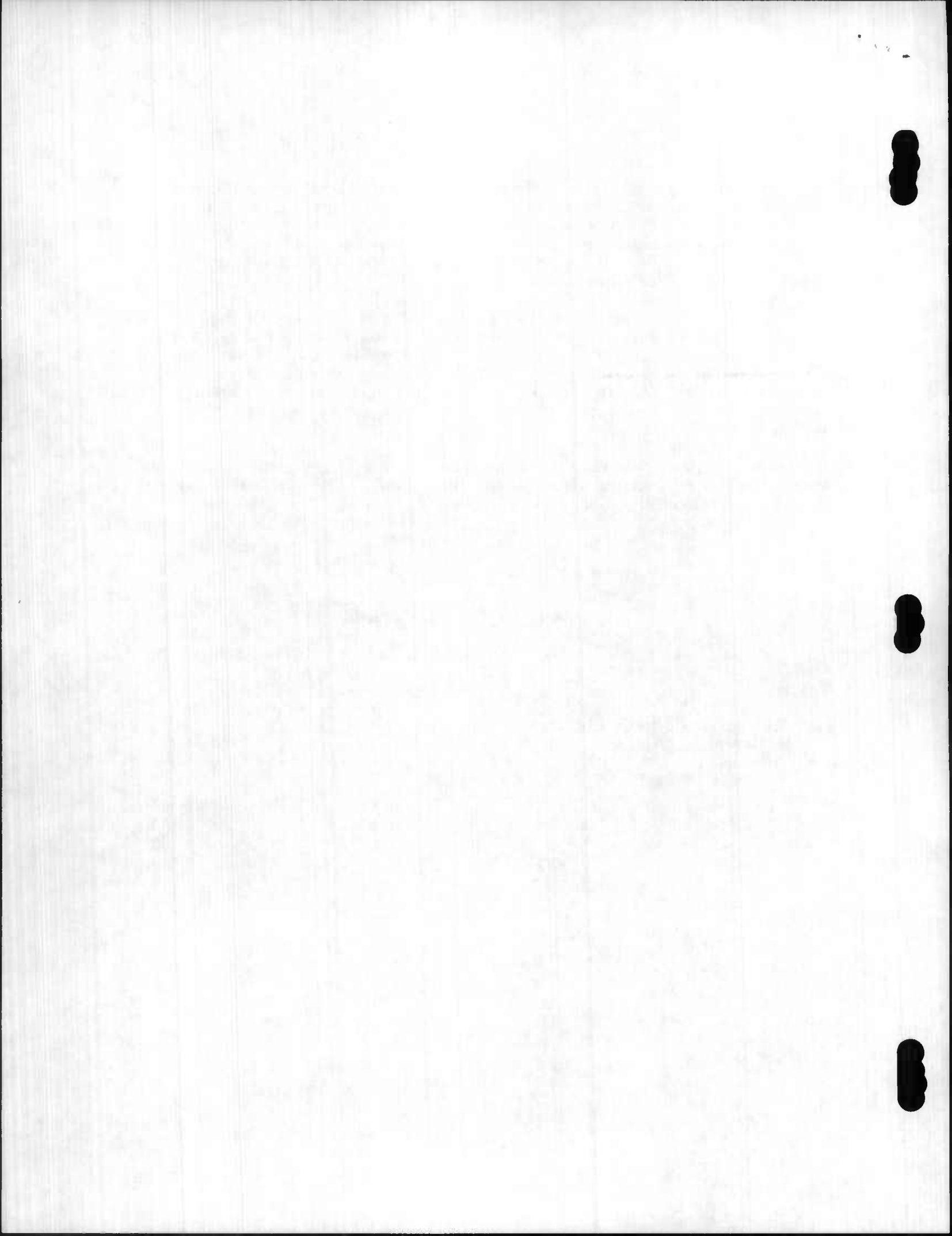


Alex J. Spencer, President

ST. MICHAELS UTILITIES COMMISSION

AJS/m

cc: William H. Corkran, Jr.
J. David Mann, Jr.
William A. Morse
Alfred J. Millard



Kenneth K. Jones
Vice President
Planning

800 King Street • P.O. Box 231
Wilmington, DE 19899
(302) 429-3626

July 22, 1988

Alex J. Spencer, President
St. Michaels Utilities Commission
St. Michaels, MD 21663

Dear Alex:

I have reviewed your letter of May 16, 1988. The information you are seeking is readily available. Therefore, we will modify the annual "review of operations" report to provide the requested information.

I have attached a revised "capital investment summary report" format for your review.

The narrative portion of the report will continue to be an overview of major activities during the report year and budgeted activities for the coming year.

There will be a new section which will show customers, sales and revenues by revenue classification during the period covered by the report. For the 1988 report, we will provide customer data for 8/1/87. Revenue data will be broken down into base rate revenue and fuel adjustment revenue.

In addition, we will include a copy of the most recent annual report to the Maryland PSC.

Sincerely yours,


Kenneth K. Jones

KKJ/dmg
Enclosures

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CAPITAL INVESTMENT SUMMARY REPORT

CAPITAL INVESTMENT

Gross Plant-in-Service as of Aug 1, 1987	
Facilities Added	
Facilities Retired	
Facilities Transferred	
Gross Plant-in-Service as of July 31, 1988	0
Depreciation Reserve as of Aug 1, 1987	
Net Change in Depreciation	
Depreciation Reserve as of July 31, 1988	0
Net Plant-in-Service as of July 31, 1988	0
Construction Work-in-Progress as of July 31, 1988	
Authorization 1 Desc.	
Authorization 2 Desc.	
Authorization 3 Desc.	
.	
.	
.	
Total Construction Work-in-Progress	0
Gross Delmarva Power & Light Investment as of July 31, 1988	0
Credit for Original St. Michael's Property Transferred to Delmarva Power & Light as of July 31, 1988	
Net Delmarva Power & Light Investment as of July 31, 1988	0

ST. MICHAELS UTILITIES COMMISSION
COMPARISON OF CUSTOMERS: 1981 and 1988

	<u>ST. MICHAELS</u>		<u>DELMARVA</u>	
	<u>July, 1981 NUMBER</u>	<u>1981 KWH USED</u>	<u>July, 1988 NUMBER</u>	<u>1988 KWH USED</u>
Residential	2,071	1,805,190	2,561	2,398,875
Commercial & Industrial	320	1,148,687	388	1,641,477
Street Lighting	1	39,568*	7	14,127
Total	<u>2,392</u>	<u>2,993,445</u>	<u>2,956</u>	<u>4,054,479</u>

* KWH sales for street lighting in the St. Michaels column includes all other town usage. This figure was impossible to break out, but total sales would have been distorted if it were not included at all. Town usage for water and buildings are included in DPL's Commercial & Industrial sales.

INCREASE IN CUSTOMERS

<u>Category</u>	<u>Number</u>	<u>% of Increase</u>
Domestic	490	24
Commercial & Industrial	68	21
Overall	564	24

INCREASE IN SALES

<u>Category</u>	<u>KWH</u>	<u>% of Increase</u>
Domestic	593,685	33
Commercial & Industrial	492,790	43
Overall	1,061,034	35

Handwritten text, possibly a signature or name, appearing as a large, stylized scribble.

MADE IN U.S.A.
-RAB-CONTIN-

JANUARY 5, 1990

After several postponements because of illnesses and weather, the Annual Meeting between members of the St. Michaels Utilities Commission and representatives of Delmarva Power was held at noon in the Lighthouse Restaurant of the St. Michaels Harbor Inn and Marina. In attendance were: Kenneth Jones, Lake Slacum and Larry Wood of Delmarva Power, Alex J. Spencer and William A. Morse of the St. Michaels Utilities Commission, and J. David Mann, Jr.

Discussion centered on the Review of Operations dated October 15, 1989, which summarizes data applicable to Delmarva's operation of the St. Michaels' facilities for the twelve months ended July 31, 1989, and Mr. Spencer's letter of October 27, 1989 directed to that report. Mr. Jones indicated that several errors had been discovered in the report submitted earlier and he handed out revised copies, one of which is attached to these minutes.

Before discussing the report, however, Mr. Spencer talked briefly about electric service to the public housing units, of which there are 75 in St. Michaels. He pointed out that the recent conversion of some 35 of those units from oil-fired hot water heat to electric would increase Delmarva's sales materially.

With respect to Mr. Spencer's October 27 letter, Mr. Jones agreed that the figures regarding gross and net investment when compared with gross and net plant in service seemed confusing. He explained the derivation of the numbers and said that, in next year's report, Delmarva would try to show the relevant data in a less confusing way.

Regarding the reporting of monthly data, discussed in paragraph 2, next year's report will reflect annual data as of 7/31/88, 89 and 90.


Regarding paragraph 3, next year's report will show expenditures in terms of an annual balance.

Perry Cabin's changes are expected to have virtually no effect on Delmarva's St. Michaels system load.

Regarding expected rate increases, Mr. Jones said that the company had just been granted an increase of 3 1/2 percent, its first increase in 34 months, for increased cost of fuel. No other increases are expected for at least a year and over five years, increases, if any, should not exceed the level of inflation.

The meeting concluded with a round-table discussion regarding Delmarva's "Energy for Tomorrow" "electronic box" program under which any customer, for a \$32 annual reduction in rates, gives the company the right to central usage. This enables the company to deal with summer peaks by attaching radio-controlled switches to appliances, e.g. air conditioners, water heaters, etc. These switches are activated by a load dispatcher between 9 A.M. and 9 P.M. during the four summer months. He said the program is receiving good acceptance and should enable the company to delay addition of new capacity.

The meeting adjourned at 1:30 P.M.



J. David Mann, Jr.
Secretary, Pro tem

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TOWN OF ST. MICHAELS, MARYLAND
COMPARISON OF ELECTRIC COSTS

ANNUAL COSTS

<u>FISCAL YEAR</u>	<u>STREET LIGHTS</u>	<u>OTHER USAGE</u>	<u>TOTAL</u>
1989	\$22,408	\$15,984	\$38,392
1988	23,472	17,377	40,849
1987	24,843	17,561	42,404
1986	26,849	18,283	45,132
1985	31,542	17,096	48,638
1984	27,506	16,009	43,515
1983	26,563	13,652	40,215

Note: Five-year plan to replace the old mercury-vapor street lights with highpressure sodium lights was started in mid-1985. Four phases have been completed; Phase 5 is scheduled for this fall or early winter.

Included in street light costs are the metered charges for street lights on St. Mary's Square and on West Chestnut Street. These costs are slightly lower in 1989 than in previous years -- \$1,315 for fiscal 89.

Other Usage includes charges for water pumping (\$11,719 in fiscal 89) and for municipal buildings (\$4,265 in 1989)

Figures for 1982 were not included since it was only a partial year.

COMPARISON OF MONTHLY CHARGES FOR STREET LIGHTS

July, 1989	\$1,708.21
July, 1988	\$1,780.50
July, 1987	\$1,911.47
July, 1986	\$2,005.76
July, 1985	\$2,143.80
July, 1984	\$2,251.19
July, 1983	\$2,087.81

Note: The above figures do not include charges for St. Mary's Square and West Chestnut Street. They are for unmetered lights only.

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TOWN OF ST. MICHAELS, MARYLAND

ANALYSIS OF SINKING FUND

FUND BALANCE

Original Sinking Fund	\$ 40,000.00
Transfers, 1982 thru 1988	849,511.24
	<u>\$ 889,511.24</u>
Transfer to be made for 1989	206,393.26
<u>TOTAL FUND BALANCE</u>	<u>\$1,095,904.50</u>

Note: As required in the charter, the sum of \$5,000 plus the cost of electricity was deducted from rent monies for the year ending June 30, 1989. From now on, the full amount of Delmarva's rental payments, less costs for electricity, will be transferred to the Sinking Fund.

PRESENT SINKING FUND INVESTMENTS

	<u>Maturity Date</u>	<u>Interest Rate</u>	<u>Amount</u>
St. Michaels Bank	3/19/91	9.50 %	\$ 215,487.78
Talbot Bank	3/19/91	9.50 %	215,487.78
St. Michaels Bank	3/19/91	8.50 %	95,690.69
St. Michaels Bank	3/19/91	8.25 %	168,350.71
Maryland National Bank	3/19/91	9.10 %	194,494.28
			<u>\$ 889,511.24</u>
To be transferred from General Fund, 1989			206,393.26
<u>TOTAL</u>			<u>\$1,095,904.50</u>

Note: From the five CD's listed above, the interest earned and paid to the General Fund during the year ended June 30, 1989 was \$73,753. This amount will increase after the 1989 transfer is made.

PACIFIC BOND
SOUTH WORTHINGTON, A
20% COTTON FIBER

Comparison: Delmarva Monthly Statements

10/31/89

MONTH	KWH SALES		REVENUE		FUEL IN REVENUE		NET REVENUE	
	1988	1989	1988	1989	1988	1989	1988	1989
Aug.	5,216,118	5,468,897	\$ 441,379	\$ 446,432	\$ 106,663	\$ 109,699	\$ 334,716	\$ 336,733
Sept.	4,356,560	5,346,624	373,012	438,924	89,018	107,192	283,994	331,732
Oct.	3,640,568	3,585,522	283,497	274,834	72,473	71,774	211,024	203,060
Nov.	3,512,734	3,728,150	276,214	284,424	70,353	74,459	205,861	209,965
Dec.	4,329,455	4,476,146	332,297	331,366	86,734	89,430	245,563	241,936
Jan.	5,616,663	6,616,203	414,445	463,303	112,569	132,509	301,876	330,794
Feb.	6,249,057	5,268,464	437,861	379,183	125,101	105,471	312,760	273,712
Mar.	5,758,903	5,971,757	407,927	427,278	115,304	120,948	292,623	306,330
Apr.	4,396,656	5,398,219	326,764	392,648	88,020	107,570	238,744	285,078
May	3,596,485	3,699,294	275,724	277,526	72,033	72,563	203,691	204,963
June	3,249,608	3,676,027	278,236	309,693	65,094	73,604	213,142	236,089
July	4,054,479	4,629,803	342,619	381,661	81,252	92,735	261,367	288,926
<u>TOTALS</u>	<u>53,977,286</u>	<u>57,865,106</u>	<u>\$4,189,975</u>	<u>\$4,407,272</u>	<u>\$1,084,614</u>	<u>\$1,157,954</u>	<u>\$3,105,361</u>	<u>\$3,249,318</u>

NUMBER OF CUSTOMERS

	1988	1989	Increase
Residential	2,561	2,625	64
Commercial	380	409	29
Industrial	8	8	-
Street Lighting	7	7	-
	<u>2,956</u>	<u>3,049</u>	<u>93</u>

MADE IN U.S.A. 30/10

SOUTHWORTH CO. U.S.A.

25% COTTON FIBER

GROWTH OF THE ST. MICHAELS FRANCHISE

NUMBER OF CUSTOMERS

	<u>July, 1981</u>	<u>July, 1989</u>	<u>Customers Added</u>	<u>% of Increase</u>
Residential	2,071	2,625	554	26.8
Commercial & Industrial	320	417	97	30.3
Street Lighting	1	7	6	n/a
Total	<u>2,392</u>	<u>3,049</u>	<u>657</u>	<u>27.5</u>

KWH SOLD

	<u>Year Ended 7/31/81</u>	<u>Year Ended 7/31/89</u>	<u>KWH Increase</u>	<u>% of Increase</u>
Residential	22,249,920	36,450,428	14,200,508	63.8
Commercial & Industrial	13,369,681	21,249,827	7,880,146	58.9
Street Lighting	468,501	164,851	(303,650)	n/a
Total	<u>36,088,102</u>	<u>57,865,106</u>	<u>21,777,004</u>	<u>60.3</u>

Notes

Commercial & Industrial Sales have been grouped because St. Michaels did not separate theirs by categories.

KWH sales for street lighting in the St. Michaels column include all other town usage. This figure was impossible to break out, but total sales would have been distorted if it were not included at all. Town usage for water and buildings are included in Delmarva's Commercial & Industrial sales.

DELMARVA POWER & LIGHT CO., INC.
 DELMARVA POWER & LIGHT CO., INC.
 DELMARVA POWER & LIGHT CO., INC.
 DELMARVA POWER & LIGHT CO., INC.
 DELMARVA POWER & LIGHT CO., INC.

MADE IN U.S.A.

MADE IN U.S.A.

MADE IN U.S.A.



GENERAL QUESTIONS

1. What, if anything, do we want DP&L to do for St. Michaels during the next four years?
2. What, if anything, don't we like about DP&L's handling of St. Michaels' facilities and services?
3. What is DP&L's estimate of impact of the Perry Cabin restructuring?
4. What, if anything, does DP&L want St. Michaels to do -- or not do -- to assist during the next four years?
5. What is DP&L's estimate of rate level during the foreseeable future -- four years?

100% COTTON FIBER
A. S. C. H. I. M. A. N. T. I. D. G. E.
FACEVAZE BOND

Page 2: CONSTRUCTION

1. Approximately \$137,000 was spent on Miscellaneous distribution improvements with an additional \$25,000 projected by the end of the year. Total for 1988 was \$43,000 plus an additional \$20,000.
2. A total of \$192,000 was spent on underground cable in the Copperville Road and Doncaster Road areas, with an additional \$30,000 projected for the Marengo Road area. Total for 1988 was \$340,000 for rebuilding Traveler's Rest area.
3. Purchase of new transformers for 1989 will cost \$96,000. The 1988 report stated that \$538,380 had been spent on transformers since the beginning of the contract. Presumably the total is now \$634,380.
4. No comments
5. The total spent for construction related to new business during the past reporting year was \$180,597, which added 114 new customers. Total for 1988 was \$188,061, with 155 new customers.
6. Meter costs for 1989 will total \$11,680, as compared with \$14,600 in 1988.

The above construction costs total \$672,277. Projected costs in the 1988 report were \$896,000.

WEST-COTTON-11374
A.S.U. DO ITDOWNTOS
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Page 3: CAPITAL INVESTMENT

Gross Plant-in-Service increased \$707,841 in the past year.

Net Plant-in-Service increased \$676,069 in the past year.

Total Construction Work-in-Progress is up \$112,616.

Gross Delmarva Power & Light Investment is up \$788,685.

Net Delmarva Power & Light Investment if up \$787,453.

Questions:

1. Gross Plant in Service is \$210,457 higher than Gross DPL Investment. What makes up that difference?
2. Net Plant in Service is \$57,190 higher than Net DPL Investment. What makes up that difference?
3. One would think that "investment" -- gross or net -- should be higher than "plant". If not, why not? What makes the difference?

Page 4: ANNUAL CAPITAL BUDGET

The 1990 capital budget for the St. Michaels area is estimated at \$973,350.

The 1989 budget (88 Report) projected capital expenditures of \$896,000, while actual expenditures amounted to \$672,277.

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ST. MICHAELS UTILITIES COMMISSION

ST. MICHAELS, MARYLAND 21663

October 27, 1989

Mr. Kenneth K. Jones
Vice President, Planning
Delmarva Power
P. O. Box 231
Wilmington, Delaware 19699

Re: Annual Review of
Operations

Dear Ken:

Thank you for sending along the 1989 Report in advance of our meeting. Reviewing it has raised several questions which we want to pass along before we meet -- to the end that we can save time for all of us.

1. Since one would think that DP&L's total investment, either gross or net, would be larger than plant in service, why do your numbers reflect gross plant at some \$210,000 higher than gross investment and net plant at some \$57,000 above net investment?
2. While the several monthly reports are interesting and important, wouldn't they be more meaningful if streamlined and designed to show changes from year-to-year, say for the three most recent years?
3. The 1989 report projects new transformer costs at \$96,000. The 1988 report indicated that \$538,380 had been spent since the beginning of the contract. Are we correct in assuming that the total for this item thru July, '89 is \$634,380?
4. What is DP&L's estimate of the impact of the projected Perry Cabin restructuring -- hotel and condos (if any)?
5. What, if anything, does DP&L want St. Michaels to do, or not do, during the immediate future to assist in carrying out the terms of our lease?
6. What is DP&L's estimate of St. Michaels area rate levels during the next several years -- say three? If changes are contemplated, what are the reasons for them?

We look forward to our meeting and hope that your having our questions in advance will prove helpful.

Very truly yours,

Alex J. Spencer, President

AJS/m



MARCH 15, 1990

A meeting of the St. Michaels Utilities Commission was held at the Town Office at 3:00 p.m. on Thursday, March 15, 1990. Alex J. Spencer and Carroll J. Wills, Jr., were present; William A. Morse was unable to attend. The term of Alfred J. Millard has expired. Town Clerk/Manager William B. Nicholson attended the meeting, as well as Roberta H. Marshall.

Mr. Spencer congratulated Mr. Wills on his recent appointment to the Utilities Commission, and spoke briefly on the history of the Utilities. He spoke in more detail about the lease of the Distribution System to Delmarva Power in 1981, the re-negotiation of the rental fees in 1986, and the Utilities Commissioners' present role as advisers to the Town Commissioners on the investment of Sinking Fund monies.

An election of officers for 1990 was then held. On a motion from Mr. Wills, duly seconded and approved, it was decided to continue with the same officers for another year:

President	Alex J. Spencer
Vice President	William A. Morse
Secretary-Treasurer	Roberta H. Marshall

There was a thorough discussion about the Sinking Fund. Copies of an analysis showing the present amount in the fund, how it is invested, and the interest rates that are being earned were distributed. All of the fund is presently invested in fully collateralized Certificates of Deposit, and all the CD's mature in mid-March of 1991. It was noted that any investment that is made with public funds must meet the requirements of the Annotated Code of Maryland, as well as the requirements of the Town Charter. Mr. Wills voiced his opinion that the Utilities Commissioners, as custodians of the Town's monies, should be ultra-conservative in the investment of the Fund.

Mrs. Marshall distributed past performance figures on the Local Government Investment Trust, a fund which was set up to meet all the requirements of the Annotated Code of Maryland. The Trust is used by many local governmental units in the state, including the Town of St. Michaels.

Before adjournment, Mr. Spencer spoke of the need to hold Utilities meetings on a more regular basis in order to prepare for the next lease re-negotiation in 1991, as well as to meet the requirements of the Town Charter. The Secretary was instructed

to contact Mr. Morse to find out what would be the most convenient time for him, and then set up a regular monthly meeting date.

There was no further business, and the meeting was adjourned at 4:25 p.m.

Roberta H. Marshall

Roberta H. Marshall, Secretary-Treasurer

APRIL 24, 1990

The regular meeting of the St. Michaels Utilities Commission was held at 3:00 p.m. on Tuesday, April 24, 1990 in the Town Office Meeting Room. Members present were Alex J. Spencer, William A. Morse, Carroll J. Wills, Jr., and Roberta H. Marshall. Town Clerk/Manager William B. Nicholson, Jr., also attended the meeting.

Mr. Spencer opened the meeting by summing up the research that was done in 1986 before the renegotiation of the Delmarva lease, emphasizing the vast amount of work and time that was contributed by William H. Corkran and J. David Mann. Mr. Spencer spoke of their value to the Utilities Commission and to the Town. He added that although they were on small retainers, he doubted if the amount that was paid to them covered their expenses. Mr. Spencer stressed the need of holding regular monthly meetings in order to prepare for the next negotiations.

Mr. Wills suggested that the Utilities Commissioners are not yet in control of the vital statistics that are needed to approach the lease negotiations in an intelligent manner, adding that information on COLA rates, power usage, etc., can easily be found. Another interesting factor would be the percentage of increase in customer costs as opposed to the percentage of increase in the lease. After the Utilities Commission has the statistics needed, the Board can determine what professional help will be needed in the next negotiation session and can request that the Town Commissioners include the costs in the budget.

Mrs. Marshall stated that the Utilities has a cash balance in the checking account of \$5,757, of which \$2,565 must be held for possible repayment for Customer Advances for Construction. There is also a growth certificate in the amount of \$37,286. This was set up with a check received from Delmarva in 1984, pursuant to a Federal Power Commission ruling on an overcharge to St. Michaels customers during 1972. Delmarva appealed the ruling, and there is still a possibility that the original amount of the check, \$24,394, will have to be refunded to them. David Mann will be contacted by Mr. Spencer to see if he can find out if the appeal has been settled.

Mr. Wills agreed to go through Mr. Corkran's work papers from the 1986 negotiations and set up guidelines for the 1991 negotiation session. He noted that the 1986 increase in the lease amounted to only two percent compounded interest.

Following the approval of the minutes of the March meeting, and the announcement that the next meeting will be held on the last Tuesday in May, the meeting was adjourned at 4:05 p.m.



Roberta H. Marshall, Secretary-Treasurer

MAY 29, 1990

A regular meeting of the St. Michaels Utilities Commission was scheduled to be held on Tuesday, May 29, 1990 at 3:00 P.M.

Mr. Spencer and Mr. Morse were both out of town, and only Mr. Wills and Mrs. Marshall were able to attend. Since a quorum was not present, the meeting was cancelled.

Roberta H. Marshall

Roberta H. Marshall, Secretary-Treasurer

JUNE 26, 1990

A regular meeting of the St. Michaels Utilities Commission was held on Tuesday, June 26, 1990, at 3:00 P.M. in the Town Office Meeting Room. Alex J. Spencer, Carroll J. Wills, Jr., and Roberta H. Marshall were present; William A. Morse was unable to attend.

The minutes of the April meeting were approved as written and circulated. It was noted that there was no meeting in May, due to the lack of a quorum.

Mr. Wills reported that he has reviewed the workpapers used by Mr. Corkran for the 1986 renegotiation of the lease, and noted that he would like to know the source of some of the information. He will continue to gather statistics for the next renegotiation session.

At Mr. Spencer's request, David Mann checked on the status of Delmarva's appeal of the FPC ruling regarding the 1972 Fuel Adjustment overcharge, and found that the case was settled long ago. The money, which is presently on deposit at Maryland National Bank at 8.35 percent interest, will not have to be returned to Delmarva. It is possible that expenses could be incurred during the next lease renegotiation, and these funds can be used for the expenses. In that way, St. Michaels will be using the money for the benefit of the people of the Town.

There was no further business, and the meeting was adjourned at 3:40 P.M.



Roberta H. Marshall, Secretary-Treasurer

AUGUST 7, 1990

Due to a lack of a quorum, the regular July meeting of the St. Michaels Utilities Commission was postponed until 3:00 P.M. on August 7, 1990. All members were present in the Town Office Meeting Room: Alex Spencer, Carroll Wills, William A. Morse and Roberta H. Marshall.


Copies of a comparison of the Town's electric costs and information on the Sinking Fund were distributed for discussion. The tentative amount which will be transferred to the Sinking Fund for the fiscal year ending June 30, 1990 was noted. The advantages of having as much money as possible in the fund at the expiration of the lease were discussed.

Mr. Wills mentioned facts that he hopes can be gathered before the re-negotiation of the rental amount in 1991. If separate figures are not obtained, a statement of what percentage of Delmarva's asset accounts is attributable to St. Michaels will be requested. Mr. Wills also noted that he is collecting as many facts about Delmarva's financial status as he can. To that end, he requested that the members of the Commission save any articles about Delmarva that appear in the newspapers. The value of getting as much information as possible on the true worth of the St. Michaels franchise was also stressed.

After the meeting with Delmarva officials in October, when their annual report on St. Michaels' distribution system will be distributed, other items of necessary information may come to light.

Before adjournment, Mr. Spencer mentioned that it might also be advantageous for the Utilities Commissioners to visit the Public Service Commission to make themselves known to some of the people who are currently in charge, if only to be able to "put a face to a name" if the need arises. Mr. Wills thoroughly agreed, and they will plan such a trip in the near future.

There was no further business, and the meeting was adjourned at 3:45 P.M.



Roberta H. Marshall, Secretary-Treasurer

TOWN OF ST. MICHAELS, MARYLAND
 COMPARISON OF ELECTRIC COSTS
 June 30, 1990

ANNUAL COSTS

<u>FISCAL YEAR</u>	<u>STREET LIGHTS</u>	<u>OTHER USAGE</u>	<u>TOTAL</u>
1990	\$22,009	\$17,224	\$39,233
1989	22,408	15,984	38,392
1988	23,472	17,377	40,849
1987	24,843	17,561	42,404
1986	26,849	18,283	45,132
1985	31,542	17,096	48,638
1984	27,506	16,009	43,515
1983	26,563	13,652	40,215

Note: The five-year plan to replace the old mercury-vapor street lights with high pressure sodium lights, started in mid-1985, has been completed.

Included in the street light costs are the metered charges for street lights on St. Mary's Square, West Chestnut Street, and the charges for Christmas lights.

OTHER USAGE includes charges for water pumping and for municipal buildings.

The slight increase in costs this year over last year seems to be due to the increase in Delmarva's Fuel Adjustment charges.

COMPARISON OF MONTHLY CHARGES FOR STREET LIGHTS

July, 1990	\$1,663.81
July, 1989	\$1,708.21
July, 1988	\$1,780.50
July, 1987	\$1,911.47
July, 1986	\$2,005.76
July, 1985	\$2,143.80
July, 1984	\$2,251.19

26% COTTON FIBER
SOUTHBRIT CO. U.S.A.
RACERASE BOND

SUMMARY OF SINKING FUND

JUNE 30, 1990

	<u>AMOUNT</u>	<u>DATE OF PURCHASE</u>	<u>INTEREST RATE</u>
Talbot Bank	\$ 215,487.78	3/19/86	9.50%
St. Michaels Bank	215,487.78	3/19/86	9.50%
St. Michaels Bank	95,690.69	6/19/87	8.50%
St. Michaels Bank	168,350.71	3/25/88	8.25%
Maryland National Bank	194,494.28	1/12/89	9.10%
St. Michaels Bank	206,393.26	11/13/89	8.65%
TOTAL TO DATE	<u>\$1,095,904.50</u>		

Note: All the above are in Certificates of Deposit, which are backed by government securities.

All CD's will mature on March 19, 1991.

Approximate amount to be transferred for the year ending June 30, 1990 is \$210,006.94. The amount must be confirmed by the auditors before the transfer takes place. Total amount in the sinking fund will then be \$1,305,911.44.

The Town's General Fund received over \$90,000 in interest on the sinking fund in the fiscal year ended June 30, 1990.

STATE OF TEXAS
COUNTY OF [illegible]

[illegible text]

[illegible text]

[illegible text]

[illegible text]

WITNESSETH THAT THE FOREGOING IS A TRUE AND CORRECT COPY OF THE ORIGINAL AS THE SAME APPEARS TO ME.

SEPTEMBER 6, 1990

A meeting of the St. Michaels Utilities Commission was held on Thursday, September 6, in the Town Office Meeting Room. Alex Spencer, President of the Commission, called the meeting to order at 3:00 P.M. Commissioners William A. Morse and Carroll J. Wills were present, as well as Assistant Town Clerk Judy Garrett and Roberta Marshall.

The minutes of the meetings held on June 26 and August 7 were approved as written and circulated.

The Certificate of Deposit at Maryland National Bank, which will amount to approximately \$39,700 on its maturity date on September 10, 1990, was discussed at length. This money has been set aside in case it is necessary for expenses incurred during the next lease renegotiation. Noting that any amount that had to be spent for renegotiation would not come due much before September of 1991, it was decided to renew the CD for a full year, at 8.1 percent interest.

Mr. Spencer will contact Larry Wood, Delmarva's St. Michaels District Manager, to set up a time and place for the Annual Meeting with Delmarva.

The next meeting will be held in early November, at which time it is hoped that the Commissioners can begin gathering statistics to use in the renegotiation of the lease.

There was no further business, and the meeting was adjourned at 3:34 P.M.



Roberta H. Marshall, Secretary-Treasurer

NOVEMBER 13, 1990

Prior to the annual meeting with Delmarva, members of the St. Michaels Utilities Commission met at 11:00 A.M. on Tuesday, November 13, 1990 in the Town Office Meeting Room. Commissioners Alex Spencer, Carroll Wills and William A. Morse were present, as well as J. David Mann, Town Clerk/Manager William B. Nicholson, Jr. and Secretary-Treasurer Roberta H. Marshall.


Copies of Mr. Wills' summaries of Delmarva reports were distributed for discussion. Mr. Wills noted that the analyses do not reflect a basis for future lease negotiations, but that the figures show a smooth curve and will be helpful in forecasting Delmarva's future sales and revenues for the St. Michaels system.

Mr. Wills expressed the opinion that the Utilities must establish figures for capital expenditures Delmarva has put on the system. He also pointed out the need of depreciation rates used by Delmarva for those additions.

It was decided that Delmarva officials will be asked for those figures during the luncheon, plus any other data that the Commissioners may feel could be helpful. The informal request will be followed up by written correspondence.

There was a brief discussion of the procedures for arbitration of the lease, and following the approval of the minutes of the September meeting the meeting was adjourned at noon.

Stanley Brewer, President of the Town Commissioners, then joined the group for the luncheon meeting with Larry Wood and Lake Slacum of Delmarva.



Roberta H. Marshall, Secretary-Treasurer

ute10.90

ST. MICHAELS UTILITY COMMISSION
MEETING
INN AT PERRY CABIN
November 13, 1990

Present: Alex Spencer, Chairman
William A. Morse, Asst. Chairman
Carroll Wills, Member
Stanley Brewer, President of the Town Commissioners
J. David Mann
Lake Slacum, Delmarva Power
Larry Wood, Delmarva Power

Lunch commenced at approximately 12:30 P.M.

During lunch; Mr. Mann thanked the representatives of Delmarva Power for their assistance in an improvement at the St. Michaels Maritime Museum at Mr. Mann's behest.

Mr. Mann then referred to his work papers and directed the conversation to a request for additional financial information that will be required for the possible renegotiation of Delmarva Power lease of St. Michaels Utility franchise.


Mr. Mann directed that Delmarva Power supply the needed information to the commissioners by dealing directly with Mr. Wills. Mr. Mann asked Mr. Wills to outline the needed information to the Delmarva representatives.

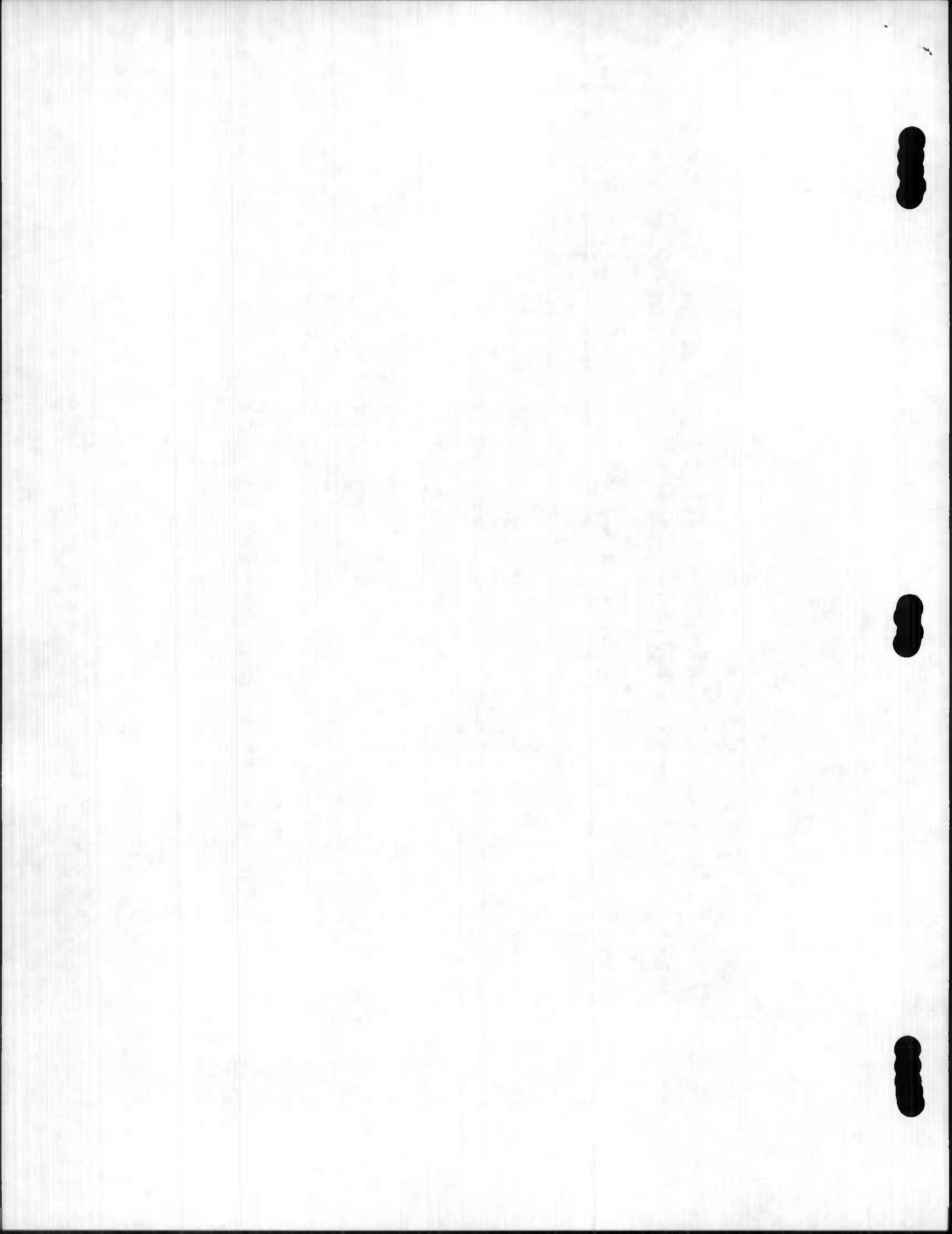
Mr. Wills only requested that the information currently being supplied on an annual basis be more detailed; especially regarding "Capital Improvement and Depreciation Schedules".

Mr. Wills did not ask for any additional information since the "Lease" specifically prohibits lease negotiations until a maximum of one hundred and eighty days prior to the scheduled date for renegotiation.

Mr. Spencer asked how the current economy had effected the business climate for Delmarva Power. A general discussion of Delmarva Power's financial stability ensued.

The meeting adjourned at approximately 2:30 P.M.


Carroll J. Wills
Acting Secretary



ADDENDUM

NOVEMBER 13 MEETINGS

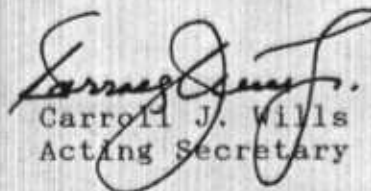
On or about November 15, 1990; Mr. Larry Wood of Delmarva Power left a message on Mr. Wills' answering machine that he was following up on the request made by the Committee at Perry Cabin. Mr. Wood advised that he would call the following week.

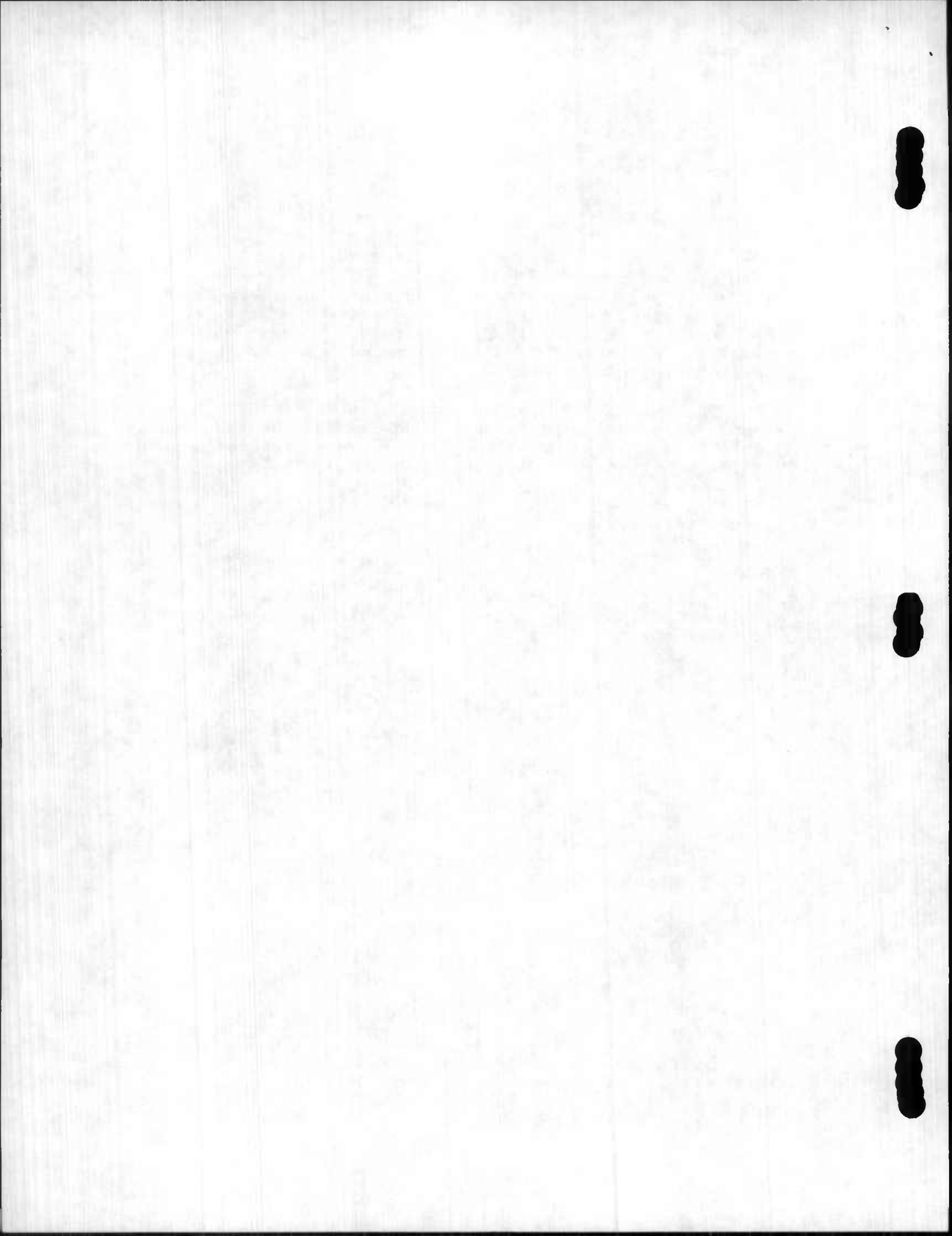
On November 20, 1990 at approximately 10:00 A.M.; Mr. Wood visited Mr. Wills' home to advise that he had been in contact with a Mr. Jones who had requested to meet with Mr. Wills in person regarding our requests.

Mr. Wood asked that the meeting take place on Tuesday, January 15, 1991.

Mr. Wills advised that this date would be fine.

Mr. Wills will request that the January meeting of the Utility Commission be scheduled to coincide with this proposed meeting.


Carroll J. Wills
Acting Secretary



Cash Flow Analysis of Sinking Fund at Various Rates from Inception

Assumptions:

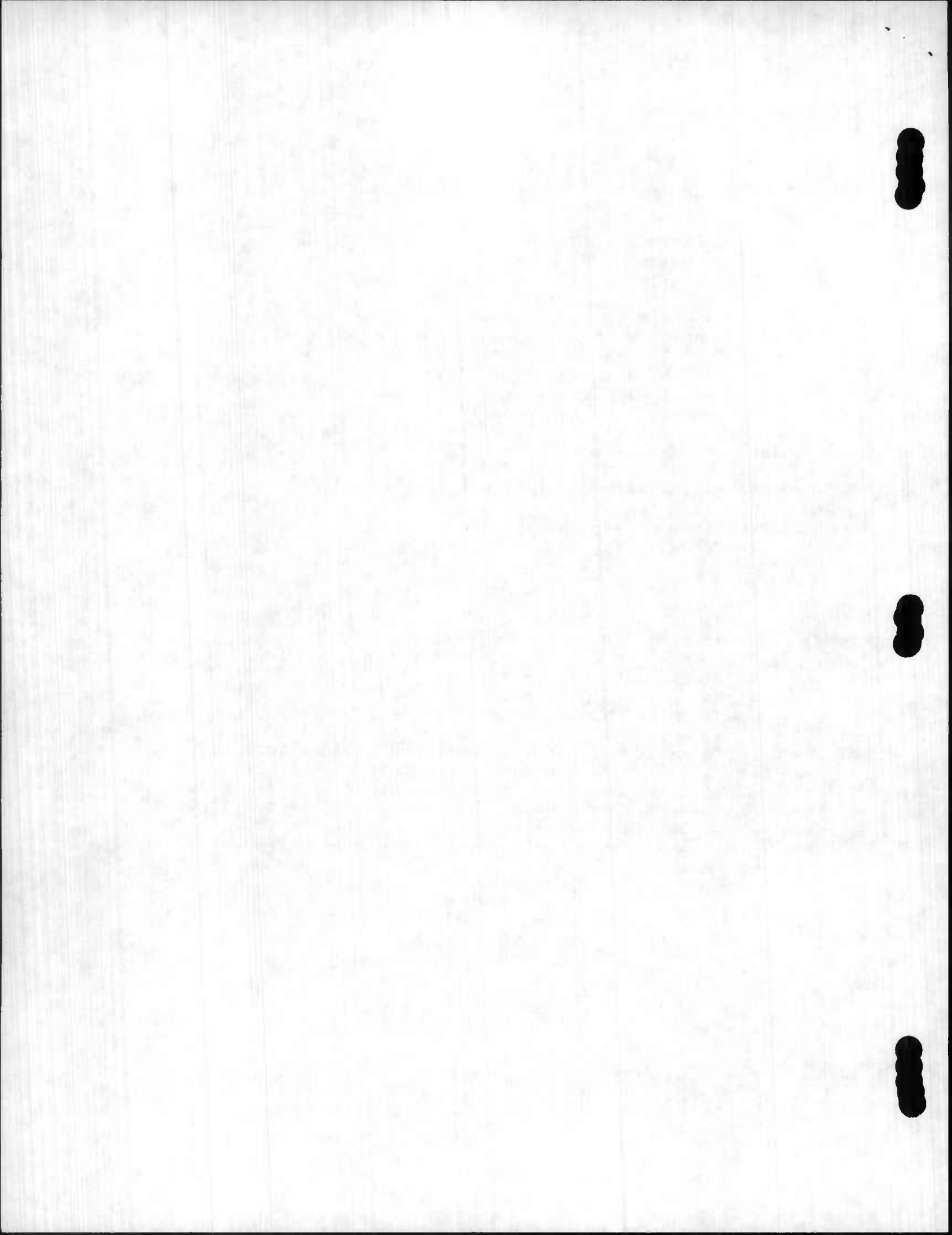
First Deposit \$40,000.00
 Sixty Deposits of \$19,166.67
 Sixty Deposits of \$21,666.67

First Annual Withdrawal of \$40,000.00
 Second Annual Withdrawal of \$40,215.00
 Third Annual Withdrawal of \$43,515.00
 Fourth Annual Withdrawal of \$48,638.00
 Fifth Annual Withdrawal of \$45,132.00
 Sixth Annual Withdrawal of \$42,404.00
 Seventh Annual Withdrawal of \$40,849.00
 Eighth Annual Withdrawal of \$38,392.00
 Ninth Annual Withdrawal of \$19,993.06
 Tenth Annual Withdrawal of \$20,000.00

Rate	Positive Cashflow	Negative Cashflow	Net Cashflow
5%	3225523.77	-205821.18	3431344.95
6%	3405163.42	-219457.32	3624620.74
7%	3597692.93	-234223.89	3831916.82
8%	3804137.07	-250222.23	4054359.30
9%	4025607.69	-267562.74	4293170.43
10%	4263304.37	-286365.88	4549670.25

Year end 91' the sinking fund will be approximately \$1,500,000.00.

At 5% investment/penalty the sinking fund should be \$3,431,344.95
 At 6% investment/penalty the sinking fund should be \$3,624,620.74
 At 7% investment/penalty the sinking fund should be \$3,831,916.82
 At 8% investment/penalty the sinking fund should be \$4,054,359.30
 At 9% investment/penalty the sinking fund should be \$4,293,170.43
 At 10% investment/penalty the sinking fund should be \$4,549,670.25



DECEMBER 21, 1990

The December meeting of the St. Michaels Utilities Commission was held at 10:30 A.M. on Friday, December 21, 1990 in the Town Office Meeting Room. Commissioners Alex Spencer and Carroll Wills were present, as well as Secretary-Treasurer Marshall. Commissioner William A. Morse was unable to attend.

Mr. Wills submitted minutes of the luncheon meeting with Delmarva, held on November 13, 1990, and they are made a part of the permanent records. He also submitted an addendum which detailed subsequent contacts with Larry Wood in regard to a meeting with Ken Jones of Delmarva in January. Mr. Jones had requested to meet with Mr. Wills regarding the requests made for more detailed information in Delmarva's Annual Reports to the Commission. Mr. Wills noted that he felt all three members should be in attendance, and Mr. Spencer concurred.

Mr. Wood requested that the meeting take place on Tuesday, January 15, 1991. This date proved to be convenient to the two commissioners present. Mr. Morse's term as a Commissioner will expire at the end of the year, and Mr. Harold Bassett has been appointed to his place on the Board. After Mr. Bassett has been contacted to see if the meeting date is convenient for him, Mr. Wills will confirm the date with Larry Wood.

Mr. Wills also distributed an analysis of the Sinking Fund at various rates from inception. He pointed out that it is important that the Town Commissioners are informed on what will be facing them in regard to the lease when it expires in the year 2006, and stressed the fact that the Town must be in a position to negotiate at that time. This matter will be discussed in detail at the next meeting with the new member of the Board. It was the view of the Commissioners that a short meeting, before the meeting with Delmarva in January, will be advisable.

Following the approval of the minutes of the November meeting, the meeting was adjourned at 11:00 A.M.

Roberta H. Marshall

Roberta H. Marshall, Secretary-Treasurer

JANUARY 15, 1991

The regular meeting of the St. Michaels Utilities Commission was held at 1:00 P.M. on Tuesday, January 15, 1991 in the Town Office Meeting Room. All Commissioners were present: Alex Spencer, Carroll Wills and new member Harold Bassett.

Mr. Spencer called the meeting to order and announced that the first order of business would be the election of officers for the coming year. He spoke of the value of the Utilities system to the Town and of his years as a Commissioner. He noted that he hopes to continue on the Board for many years to come, but added that health problems will not permit him to continue as President of the Commission. Mr. Wills pointed out Mr. Spencer's many contributions to the Commission and asked if he would reconsider if some of the duties of the office could be delegated to the Vice President. Mr. Spencer stated that he will stay as long as possible, but not as President. He then nominated Mr. Wills as President of the Commission for the coming year. The nomination was seconded by Mr. Bassett, and passed by unanimous vote. Mr. Wills then took the chair for the balance of the meeting.

Motion was then made by Mr. Wills to nominate Mr. Bassett as Vice President. The motion was seconded by Mr. Spencer, and passed unanimously. Roberta Marshall was named Secretary-Treasurer for the Commission. Mr. Spencer voiced the opinion that the Board is in good hands for the upcoming renegotiation of the lease, and applauded the enthusiasm of the members for the task ahead.

There was discussion about the help given the Utilities during the last lease negotiation by William Corkran, former manager of Easton Utilities. It was decided that it would be desirable to contact Mr. Corkran and set up a possible meeting. Mr. Wills will call him in the near future.

Mr. Wills announced that the meeting scheduled with Delmarva has been canceled, since Mr. Jones had to attend an emergency meeting. After discussion, it was decided that a new date will be requested, possibly for some time in February. Mr. Wills will contact Larry Wood later this month.

Discussion then turned to information that will be necessary to have on hand for the lease renegotiation. Mr. Wills has done considerable work with the figures that have been supplied by Delmarva in the Annual Reports, but the information supplied does not co-relate and is therefore of little use. Without the listing of assets that have been capitalized by Delmarva, and an accompanying depreciation schedule, few accurate projections can be made. It is hoped that Delmarva will supply the necessary figures after the meeting with Mr. Jones.

The minutes of the December meeting were approved as written and circulated.

Following a short discussion concerning the Sinking Fund and the auditor's report, the meeting was adjourned at 2:45 P.M.

Roberta H. Marshall

Roberta H. Marshall, Secretary-Treasurer

smu1.91



ST. MICHAELS UTILITY COMMISSION
MEETING
CHAMBERS PENTHOUSE
February 8, 1991

Present: Carroll Wills, Chairman
Harold Bassett, Asst. Chairman
Alex Spencer, Member
William Corkran Jr., Guest

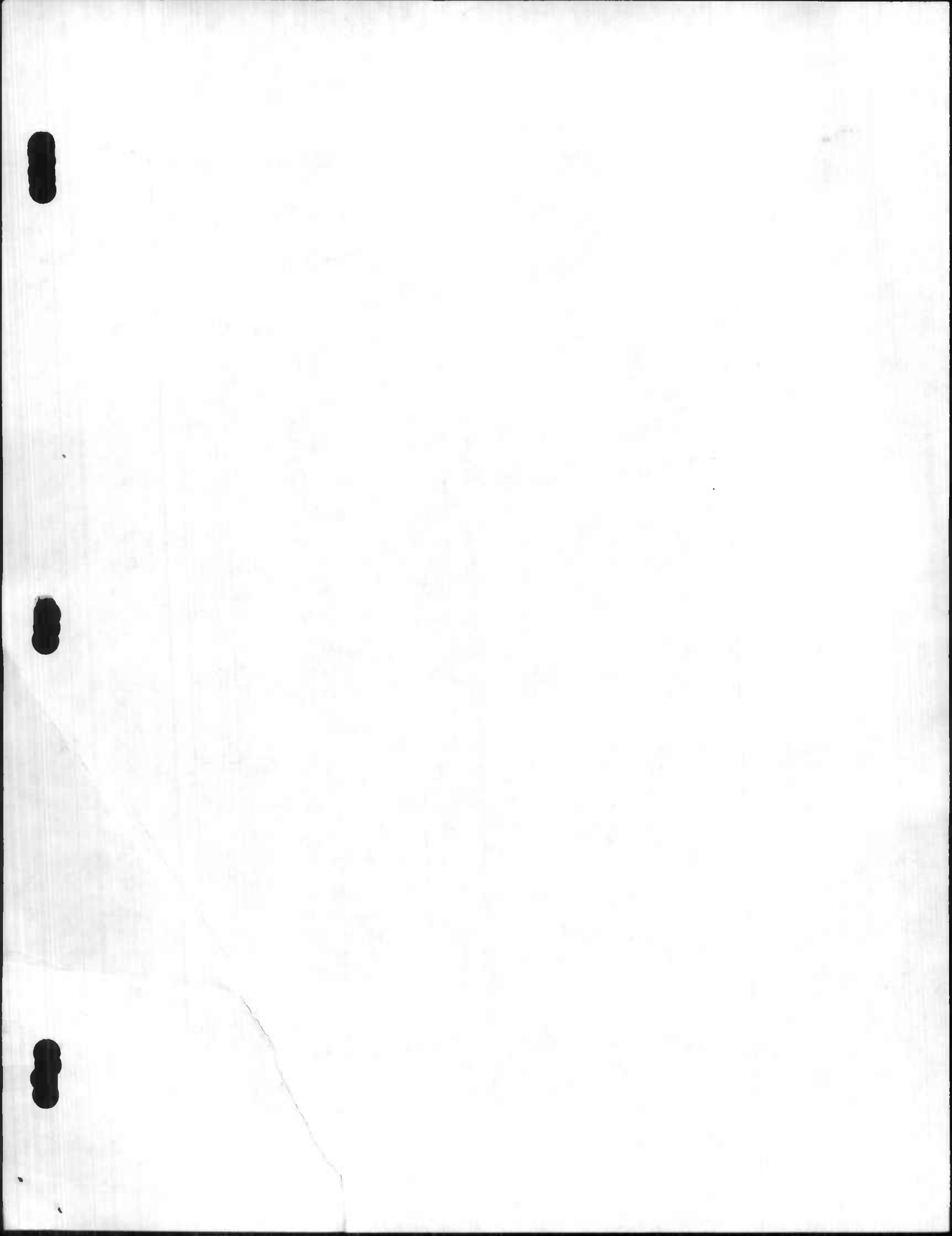
Lunch commenced at approximately 12:00 noon.

During lunch; Mr. Corkran agreed to again assist the Commission during the lease negotiations with Delmarva Power and Light company. Mr. Corkran's expert advise was solicited for the negotiations in 1986 and we are fortunate to have his agreement to help us in the negotiations scheduled for 1991.

There was a general discussion regarding the previous negotiations with Delmarva. Mr. Corkran suggested that a starting point (for reference) might be to open a dialogue with the Easton Utility Company. Mr. Corkran agreed to set up a meeting with Mr. Roger Judd and secure for the committee a reference for the accounting principals used for public utilities.

The meeting adjourned at approximately 1:45 P.M.

Carroll J. Wills
Acting Secretary



ST. MICHAELS UTILITY COMMISSION
MEETING
EASTON ELECTRIC POWER PLANT
February 15, 1991

Present: Carroll Wills, Chairman
Harold Bassett, Asst. Chairman
Alex Spencer, Member
William Corkran Jr., Consultant
Roger Judd, Easton Utility Department

The meeting began in the conference room of the Easton Electric Power Plant at approximately 2:00 P.M.

Mr. Judd manages the Easton Utility Electric department and has over twenty years experience in the management and supply of electricity to the residents of Easton, Maryland.

Mr. Judd supplied the commission with the June 30, 1990 Easton Utility Commission Financial Audit (under act of 1984), the Federal Energy Regulatory Commission Accounting and Reporting Requirements for Public Utilities and the Handbook for New Public Power Policymakers (APPA) for review. The commission promised these would be returned as soon as possible. It was agreed that the St. Michaels Power Commission would order copies of the Handbook and Reporting Requirements for reference.

Mr. Judd responded to inquiries by members of the commission and offered to assist the commission in its search for reference material for use in the negotiations with Delmarva Power. We are very fortunate to receive this offer and expressed our sincere appreciation to Mr. Judd.

Mr. Corkran advised that he would contact the American Public Power Association (APPA) and inquire if any other local utility has leased their franchise in a similar manner as the Town of St. Michaels.

The meeting adjourned at approximately 4:00 P.M.

Carroll J. Wills
Acting Secretary

FEBRUARY 19, 1991

A meeting of the St. Michaels Utilities Commission was held in the Town Office Meeting Room on Tuesday, February 19, 1991. Commissioners Spencer, Wills, and Bassett were present, as well as Secretary-Treasurer Marshall. Town Clerk/Manager William B. Nicholson, Jr. and John J. Northrop also attended the meeting.

Mr. Wills called the meeting to order at 3:20 P.M. and announced that he would immediately turn the meeting over to discussion on the investment of the Sinking Fund. The fund, in the amount of \$1,305,911.44, is presently invested in seven CD's which will all mature on March 19, 1991.

Mr. Northrop, a representative of Merrill Lynch, spoke of the restrictions on the investment of the Sinking Fund by the Maryland Code. He then spoke of some of the advantages of using his firm: the expertise of professionals in the firm, the liquidity of the funds, the separation of interest from the principal, and assistance with record keeping. The Commissioners and Mr. Nicholson asked numerous questions during the presentation. Mr. Northrop noted that, in all probability, his firm would advise that the funds be invested in a combination of Treasury Bonds and Ginnie Maes. On a question from Mr. Wills, Mr. Northrop stated that he can supply a list of Merrill Lynch's municipal customers. All funds would be fully insured, and the investment would comply with the Maryland Code.

After further discussion, Mr. Northrop agreed to meet with the Commissioners at 3:00 P.M. on Thursday, March 7, 1991. At that time he will present his proposal. The staggered portfolio will show the proposed investments and the net rate of return. It will also show estimated future deposits into the fund. Mr. Northrop will send the list of municipal customers before that time.

After Mr. Northrop's departure, discussion turned to alternate ways of investing the fund. The Commissioners voiced their concerns with the unsettled condition of the economy at the present time. Mr. Nicholson spoke of the Local Government Investment Pool, which was established to fully comply with the Maryland Code and which has been very successful in the past years. On a motion by Mr. Wills, seconded by Mr. Bassett, it was voted unanimously to deposit the funds in the Pool if more time is needed to make the best decision on investment. One of the advantages of the Pool is that money can be moved in and out without penalty and without a waiting period. In the meantime, rates being paid on fully collateralized jumbo CD's will be monitored.

The group then turned to other matters. Mr. Wills asked that a regular day and time be scheduled for Commission meetings, and it was decided to meet at 3:00 P.M. on the last Thursday of each month. Since the March meeting has already been scheduled, the regular meeting date will begin in April.

The minutes of the January meeting were approved as written and circulated.

Copies of the minutes of the meeting with Mr. Corkran on February 8 and the meeting with Mr. Judd on February 15 were distributed, and those minutes were also approved as written.

At the meeting with Mr. Judd, the Commissioners borrowed a booklet titled Handbook for New Public Power Policymakers, published by the American Public Power Association. Mr. Wills noted that the information in the booklet would prove invaluable to the present Board, as well as to any new members in future. It was decided that six copies of the Handbook should be ordered. Mrs. Marshall was also instructed to secure a copy of the latest Federal Energy Commission rules and regulations.

There was a short discussion on information necessary for the upcoming lease renegotiation. Mr. Bassett will look into inflation rates over the past ten years. Mr. Wills will meet in the near future with Mrs. Marshall to discuss the assets represented on the Utilities books at the time of the lease. The value of the franchise was duly noted.

There was no further business, and the meeting was adjourned at 5:30 P.M.

Roberta H. Marshall

Roberta H. Marshall, Secretary-Treasurer

ST. MICHAELS UTILITIES COMMISSION
SUMMARY OF SINKING FUND
February 19, 1991

	<u>AMOUNT</u>	<u>DATE OF PURCHASE</u>	<u>INTEREST RATE</u>
Talbot Bank	\$ 215,487.78	3/19/86	9.50%
St. Michaels Bank	215,487.78	3/19/86	9.50%
St. Michaels Bank	95,690.69	6/19/87	8.50%
St. Michaels Bank	168,350.71	3/25/88	8.25%
Maryland National Bank	194,494.28	1/12/89	9.10%
St. Michaels Bank	206,393.26	11/13/89	8.65%
Talbot Bank	210,006.94	10,12/90	8.21%

TOTAL SINKING FUND INVESTED: \$1,305,911.44

Note: All CDs mature on March 19, 1991

25% COTTON FIBER
SOUTHWORTH CO. S.A.
ERASE BOND

Merrill Lynch Consumer Markets
22 North Harrison Street
Easton, Maryland 21601
301 547 5000

"Town of Morningside"



Merrill Lynch

February 26, 1991

Mr. Carroll Wills
P.O. Box 119
Route 1
St. Michaels, Maryland 21663

Dear Mr. Wills:


Thank you for taking the time to meet with me on February 19th.
As you requested, I am providing a listing of some of the
municipalities with which Merrill Lynch currently deals.

- 1) Baltimore County
- 2) Carroll County
- 3) Montgomery County
- 4) State of Maryland
- 5) Cecil County
- 6) Harford County
- 7) Frederick County.

I hope you find this helpful. I am looking forward to meeting
with you again on March 7th.

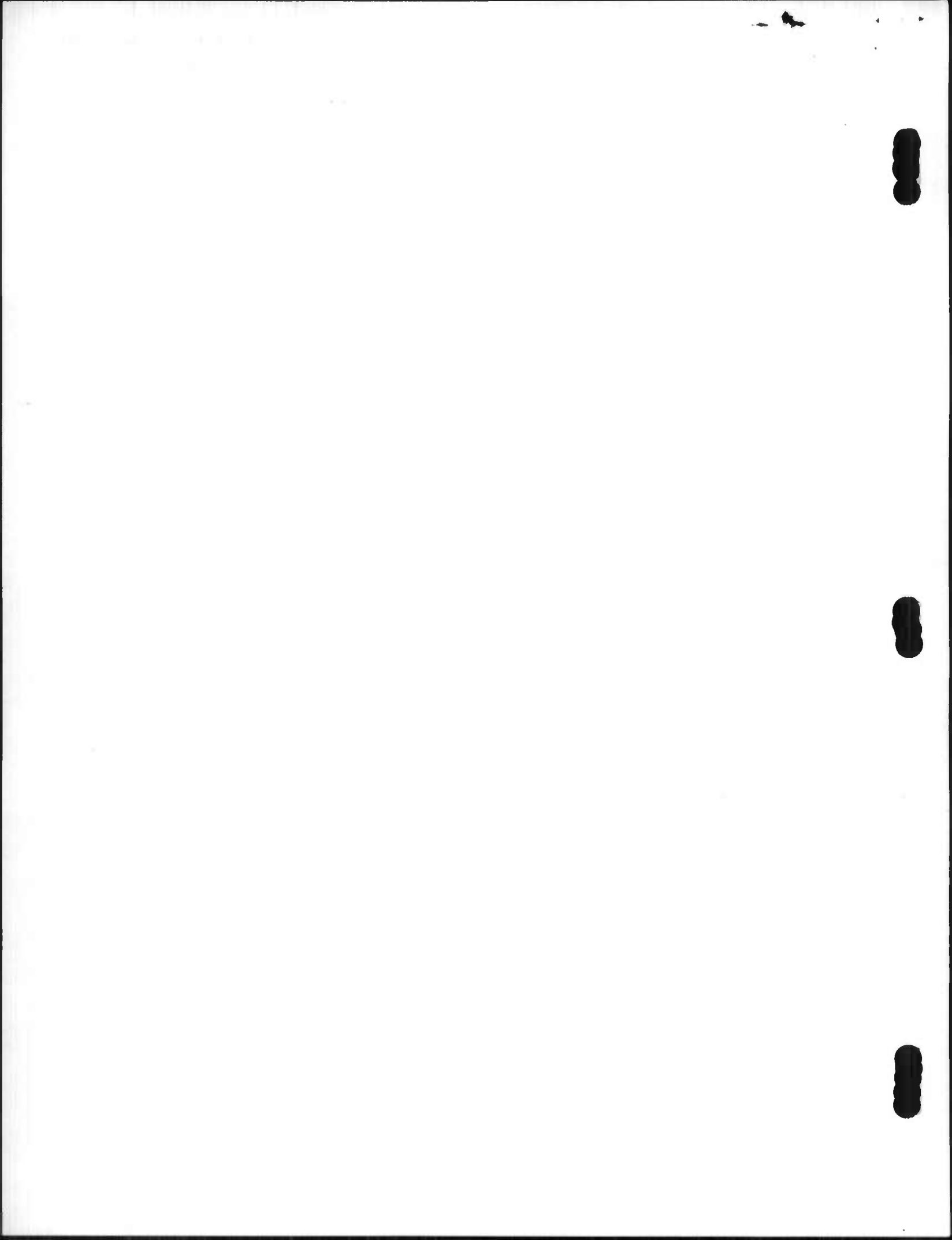
If you have any questions, please do not hesitate to contact me.

Sincerely,


John J. Northrop
Financial Consultant

ADDENDUM TO MINUTES, FEBRUARY, 1991

R.M.
3/7/91



MARCH 7, 1991

A meeting of the St. Michaels Utilities Commission was held on Thursday, March 7, 1991 in the Town Office Meeting Room. Utilities Commissioners Wills and Bassett were present; Alex Spencer was unable to attend. William B. Nicholson, Jr., John Northrop, and Roberta Marshall also attended the meeting.

Mr. Wills called the meeting to order at 3:10 P.M.

The minutes of the February meeting were approved as written and circulated.

Mr. Wills then called on Mr. Northrop for his recommendations about the investment of the Sinking Fund. Mr. Northrop distributed information on the Merrill Lynch proposal, which placed the funds in a combination of Zero Coupon U. S. Treasury Strips to mature in 2006 and U. S. Coupon Treasury Notes maturing yearly.

In the discussion that followed, Mr. Wills thanked Mr. Northrop for an excellent presentation of a balanced portfolio. A question arose about negotiability rates and penalty factors on the zero strips, and Mr. Northrop stated that he would send a copy of a chart containing the information needed. He also has similar information available on Ginny Maes. If Merrill Lynch is used for the investment of the Fund, there will be a charge of \$150.00 to establish the account, but all figures shown in the presentation are net. Mr. Northrop was again thanked for his efforts, and he was told that the Board will contact him as soon as a decision is made.

After Mr. Northrop's departure, it was pointed out by Mr. Bassett that the Utilities Commission, in its custodial relationship of the funds, must establish investment criteria for future use. Mr. Nicholson spoke of budget pressures faced by the Town Commissioners, and various ways of handling the funds.

After the last meeting, Mr. Wills received the letter from Mr. Northrop that listed his firm's municipal customers. The letter was presented as an addendum to the minutes.

As the present investments of the Sinking Fund monies will mature before a final decision is made, Mr. Nicholson was requested to inform the Town Commissioners that the Utilities Commissioners recommend that the monies be placed in the Government Investment Trust for the time being. Mr. Nicholson will make the recommendation at the next Town meeting, to be held on Tuesday, March 11, 1991.

Mr. Wills announced that he will be out of town from mid-April through mid-May.

The Commissioners were reminded that Dennis Cross, from U.S.A.A. Financial Services, will present his firm's recommendations for investment of the Sinking Fund on Friday, March 15, at 10:00 A.M.

There was no further business, and the meeting was adjourned at 4:50 P.M.

Roberta H. Marshall

Roberta H. Marshall, Secretary-Treasurer

MARCH 15, 1991

Utilities Commissioners Wills and Bassett, Town Clerk/Manager Nicholson and Mrs. Marshall met with Dennis Cross in the Town Office Meeting Room on Friday, March 15, 1991 at 10:15 A.M. Mr. Spencer was unable to attend.

Mr. Cross, from USAA Investment Management Company, made a presentation of his suggestions for investment of the Town's Sinking Fund. He stated that the monies would be placed in highly regulated no-load funds which fully comply with Maryland law. Packets of back-up information were distributed for the Commissioners' reference.

During the discussion that followed the formal presentation, it was noted that no provision had been made for interest payments to the General Fund. Mr. Cross stated that the sum needed could be placed in a money market fund, but any long term money should be invested in Ginny Maes. In reply to a question from Mr. Wills, he said there was no downside risk on foreclosures, and the investment gives a yield of long term. Mr. Bassett remarked that the money would be placed in a new fund, with no track record. Mr. Cross stated that USAA has a history of being in Ginny Maes, and the fund is based on that experience. Mr. Nicholson noted the Town's budget requirements, and Mr. Cross assured him that dividends could be wired direct to the General Fund account.

Following the discussion, Mr. Wills announced that he and Mr. Bassett planned to return to the meeting room after lunch so that a decision on the investment of the Sinking Fund can be made.

The meeting was adjourned at 11:20 A.M.



Roberta H. Marshall, Secretary-Treasurer



MARCH 15, 1991

A supplementary meeting of the St. Michaels Utilities Commission was held on Friday, March 15, 1991 in the Town Office Meeting Room. Utilities Commissioners Wills and Bassett were present; Alex Spencer was unable to attend. William B. Nicholson, Jr. also attended the meeting.

Mr. Wills called the meeting to order at 2:00 P.M.

There was a general discussion, by all present, regarding the investment proposals presented by Merrill Lynch and U.S.A.A. Financial Services relating to the investments of those funds earmarked as the Utility Commission Sinking Fund.

There was also a general discussion of the goals and objectives that were perceived by the members of the "Commission".

It was generally agreed that the imminent lease negotiations with Delmarva Power would impact the investments calculations and influence a final recommendation to the St. Michaels Town Commissioners as required by Article XI, section 3. paragraph (d) of the Municipal Charter.

It was therefore moved and second that a letter would be sent to the President of the St. Michaels Town Commissioners recommending that the balance of the Utility Commission Sinking Fund (approx. \$1,305,911.44); currently invested in Bank Certificates of Deposit maturing on March 19, 1991, be invested in the "Liquid Pool Fund" for a period of approximately one hundred eighty days or until such time that the "Utility Franchise Lease" has been negotiated with Delmarva Power and Light Company.

There being no further business, the meeting adjourned at 3:00 P.M.


Carroll J. Wills Jr., Acting Secretary



Handwritten signature or scribble

March 18, 1991

The Commissioners of St. Michaels
P.O. Box 206
St. Michaels, Maryland 21663-0206

Att: Mr. Stanley E. Brewer
President

Re: Utility Commission Sinking Fund

Dear Mr. Brewer;

Enclosed you will find a copy of the minutes of a supplementary meeting of the Utility Commission regarding a recommendation for the investment of those funds currently allocated to the Utility Commission Sinking Fund.

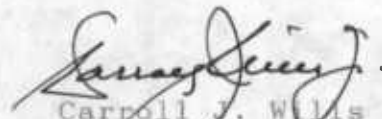
We believe that it is prudent to invest these funds, on a short term basis, in the Liquid Pool Fund currently used by our town as outlined in paragraph six of the enclosed minutes.

As you know, we will be negotiating with Delmarva Power and Light Company for an increase in our current lease arrangement for the Utility Franchise. These negotiations are scheduled to begin the first of April and should be completed by the first of October. At the conclusion of these negotiations, the monthly lease payments will be established for the next five years. We believe we can best evaluate the alternatives for long term investment after this information is available.

We expect to receive additional information during our lease negotiations that will enable us to better evaluate the contingent liability established by paragraph 7.2 of the lease. We believe that this additional information will prove essential for future investment decisions and recommendations.

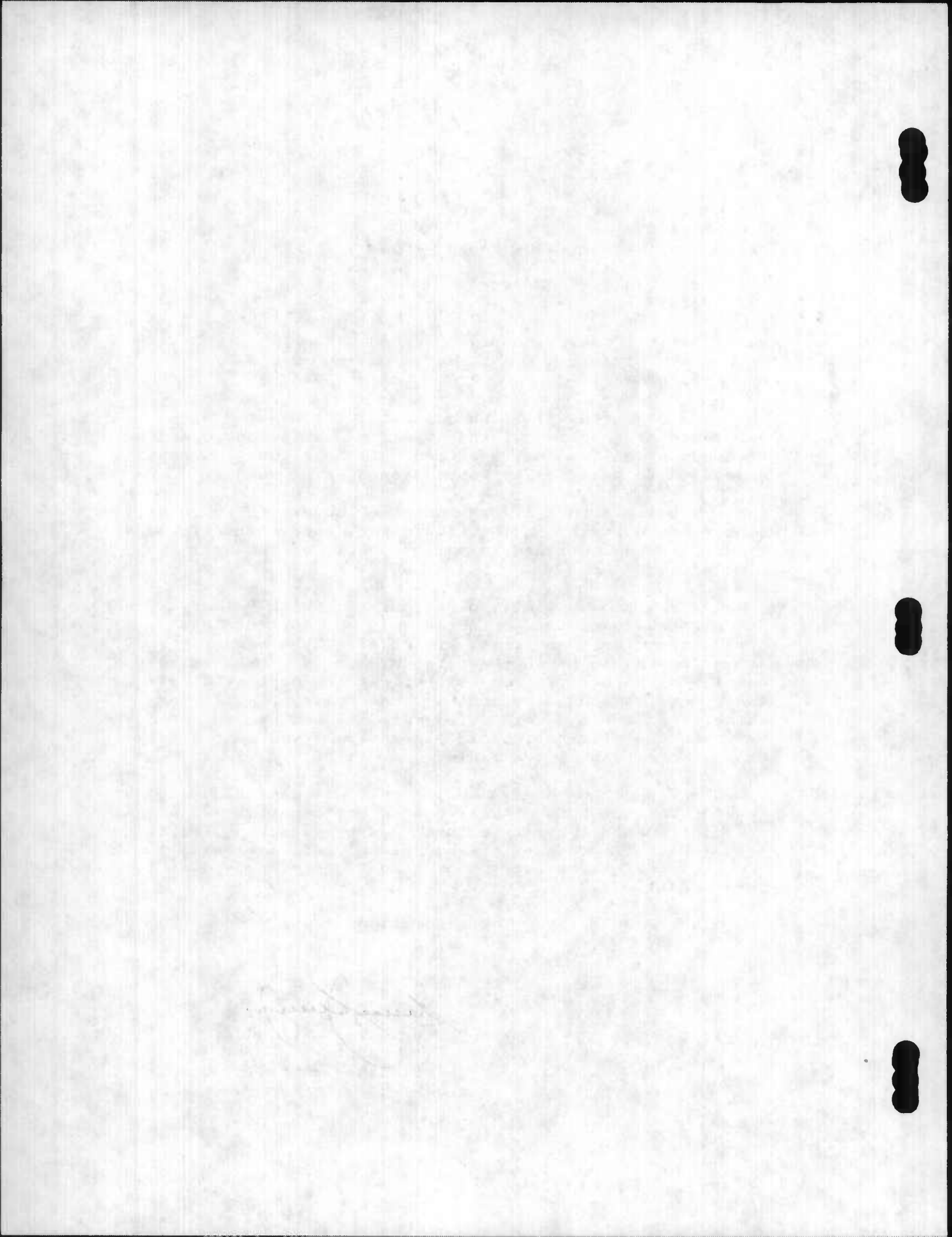
Thank you for your consideration of our recommendation.

Yours Truly,



Carroll J. Willis Jr.
President

St. Michaels Utility Commission



Date

Delmarva Power and Light, Inc.
Rt. 33 and St. Michaels Road
St. Michaels, Maryland 21663

Att: Mr. Larry Wood

Re: St. Michaels Review of Operations

Dear Mr. Wood:

Thank you for your "Review of Operations" dated October 15, 1990. Your continued efforts to supply outstanding service to the St. Michaels Franchise is sincerely appreciated.

During our meeting with you and Mr. Slocum on November 13, 1990, we advised that we were in need of additional financial information. We advised that our specific needs would relate to "Capital Improvements and Depreciation Schedules". You advised that it would be no problem for you to supply additional information needed by or for the Utility Commission of St. Michaels.

Your report indicated that Delmarva Power and Light, Inc. had made a capital investment of \$4,466,455.53, net of depreciation in the amount of \$389,839.26, as of July 31, 1990. As you know, in accordance with the stated terms of section 7.2 of our lease, this amount could represent a contingent liability for the Town of St. Michaels.

In order to ^{may} establish a sound actuarial basis for the St. Michaels Utility ~~Sinking~~ Fund; we are required to estimate the reserves that ~~will~~ be required to resume electric service operation for our franchise at the conclusion of your lease. Toward that end, we request the following information:

1. A list of the assets represented as "Capital Investments" and the month and year that each asset was purchased.
2. The salvage value for each asset listed.
3. Depreciation schedules for each category of assets and the basis for each schedule used.

Eventually, St. Michaels will be required to age and value all of the tangible and intangible assets represented as the St. Michaels Franchise in order to meet the responsibilities mandated by the lease. We ask that the information requested in the above paragraph be supplied on an annual basis so that reasonable reserves can be established.

Thank you for your many past courtesies.

Sincerely,

APRIL 25, 1991

The regular meeting of the St. Michaels Utilities Commission was called to order by Vice President Harold Bassett at 3:10 P.M. on Thursday, April 25, 1991 in the Town Office Meeting Room. Mr. Bassett and Mrs. Marshall were present; Messrs. Spencer and Wills were unable to attend. Due to the lack of a quorum, no official actions could be taken.

Mr. Bassett supplied a rough draft, written by Mr. Wills before his departure for California, stating the goals of the Utilities Commission in the upcoming lease negotiations with Delmarva. Mrs. Marshall was instructed to distribute the draft to the Utilities Commissioners before the next meeting. The goals will be discussed at that time, and will be revised as necessary.

It was also suggested that a date for a request for detailed information from Delmarva can be decided upon at the May meeting.


A date for the first negotiation meeting with Delmarva must also be set when the Commission meets in May. The first part of July, near but after the Fourth, seems an appropriate time.

At a meeting of the Commissioners with Mr. Corkran, held on February 8, 1991, Mr. Corkran agreed to assist the Utilities in the upcoming negotiations. (See February minutes.) Mr. Bassett will contact Mr. Corkran to make him aware of the July date, and to see if he will review his 1986 calculations with the Board.

Mr. Wills' minutes of the meeting held on the afternoon of March 15 were submitted to be made an addendum to the minutes of that morning's meeting. A copy of a letter to the Town Commissioners, dated March 18, 1991, regarding investment of the Sinking Fund, as well as a copy of a letter to Larry Wood of Delmarva Power requesting information on Delmarva's capital investment in the St. Michaels franchise, were also received for the files.

Since the next meeting, which will be held on May 30, 1991, may run longer than usual, it will be scheduled to begin at 2:00 P.M., rather than at the usual time.

There was no further business, and the meeting was adjourned at 3:25 P.M.



Roberta H. Marshall, Secretary-Treasurer



GOALS

It appears that section 2.3 of the lease will allow each party to enter into a dialogue about any subject relating to the lease whether it is significant or perfunctory.

The lease does specify three areas for discussion and I suggest that in the end the arbitrator will turn to the written lease for guidance and we should therefor have convincing arguments relating to, "...changes in the size and character of the customer population within the Service Territory, the effect of such changes on Delmarva's system load factor and changes in the general rate of inflation."

We have the material to dramatize the steady growth of the franchise and the resultant income stream from the growth for Delmarva. We need to verify these numbers while substantiating the "Capital Improvement" costs supplied by Delmarva.

We need to understand the possible "alleged" effects that these changes have had on Delmarva's system load factor. Here is where we will need Mr. Corkran's expertise.

We need to use the changes in the general rate of inflation to our best advantage. Unfortunately, this wording is biased toward Delmarva. This wording must be overcome by our statistical information relating to our lease income by comparing to current value of today's dollars.

May I recommend that we:

1. Present a plan to the Commissioners of St. Michaels that will outline our proposed request for an increase in the annual rent of the Utility Franchise. Advise of the pitfalls and possible rewards and request permission to pursue the increase vigorously.

2. Formally notify Delmarva that we intend to seek an increase in the "Annual Rent" of our lease agreement as outlined in section 2.3 of the agreement.

3. In our initial meeting with Delmarva, discuss only one aspect of the basis for our request for an increase. I suggest that we discuss load factor first to acquaint ourselves with the possible pitfalls of the documented basis for revision.

4. I also suggest that we do not allow our "Team" to be separated and that all meeting for the discussion of this possible increase be fully documented as to who was present, what was discussed and what was the outcome of the meeting. This documentation will ultimately be significant for the arbitrator's review if one is required.

5. We should have an idea as to when we believe that the negotiations should be terminated and placed in the hands of a mutually acceptable arbitrator. This will, of course, be a moving target and should be discussed at every Utility Commission Meeting.

ST. MICHAELS UTILITY COMMISSION
MEETING
DELMARVA POWER & LIGHT
ST. MICHAELS, MARYLAND
May 22, 1991

Present: Carroll Wills, Chairman
Alex Spencer, Member
Kenneth K. Jones, Delmarva Power
George G. Vapaa, Delmarva Power
Larry Wood, Delmarva Power

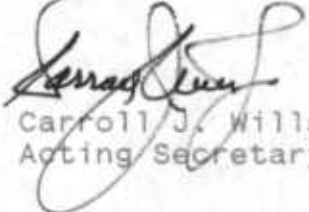
The meeting began in the office of Mr. Larry Wood of Delmarva Power Company located at their facility in St. Michaels, Maryland at approximately 10:00 A.M.

In response to the letter delivered to Delmarva Power on April 10, 1991; Mr. Jones delivered to Mssrs. Wills and Spencer a number of "print-outs" representing the assets of the St. Michaels electric franchise as recorded on the books and records of Delmarva Power Company.

Mr. Jones offered the assistance of the Company to the Commission for the interpretation of the detail in these records.

Mr. Jones estimated that the Town of St. Michaels would need in excess of ten million dollars to purchase the assets of the franchise at the conclusion of the lease as called for by the lease.

The meeting adjourned at approximately 11:00 A.M.


Carroll J. Wills
Acting Secretary

THE UNIVERSITY OF CHICAGO

PHYSICS DEPARTMENT

5712 S. UNIVERSITY AVE.

[Faint signature]

MAY 30 1991

The regular meeting of the St. Michaels Utilities Commission was held on Thursday, May 30, 1991 in the Town Office Meeting Room. All Commissioners were present: Carroll Wills, Jr., Alex Spencer and Harold Bassett. Also in attendance were William H. Corkran, Jr., and Mrs. Marshall.

The meeting was called to order by Mr. Wills at 2:10 P.M.

The minutes of the April meeting were approved as written.

Mr. Wills distributed minutes of a meeting held on May 22 with representatives from Delmarva. These minutes were approved as submitted, and made an official part of the records of the Utilities Commission.

Mr. Wills then briefly outlined the actions taken by the Board to date regarding the lease negotiations, and spoke of the additional steps that must be taken in the future. He explained that at the meeting with Delmarva he received the information on the breakdown of assets and the depreciation schedules that he had requested as additional backup for their annual report. These figures will be analyzed for future use. He noted that two points are immediately apparent in the data: (1) the depreciation period runs for an unusually long period of time, thus making the net worth of Delmarva's assets very costly at the end of the lease period in the year 2006; and (2) Delmarva has replaced a large portion of the original St. Michaels equipment. Mr. Wills stated that Mr. Jones told him that Delmarva plans to continue this rate of investment at the rate of half a million dollars yearly, and Mr. Jones estimated that the Town would need in excess of ten million dollars to purchase the assets of the franchise at the conclusion of the lease.

The discussion then turned briefly to the steps taken during the 1986 lease negotiations. Mr. Corkran agreed to review the projections he made at that time and to check their accuracy in view of continuing along that line.

Mr. Bassett has been documenting information from the U.S. Statistical Abstract so that data can be compiled regarding purchasing power that has been lost since the lease began due to the Cost Price Index. It was the opinion of the Board that the slight increase paid as a result of the 1986 negotiations was not a fair and just amount, and that the next increase should make up for some of that loss.

Mr. Corkran was then asked for his views on the matter. He touched on the difficulties of negotiating with Delmarva, and added that after checking the accuracy of his 1986 figures he will continue those predictions for the next period.

It was noted that there are three factors in the lease for changing the amount of the lease payments: changes in the size and character of the customer population, the effect of such changes on Delmarva's system load factor, and changes in the general rate of inflation. It was agreed that the St. Michaels system's load factor is ideal, and would have little or no effect at all on the Delmarva system.

Mr. Corkran, who is a past president of the American Public Power Association, will contact someone from that organization to see if they know of other comparable utilities that are leased, and if so, to see how those leases are handled.

On a motion by Mr. Spencer, seconded by Mr. Bassett, it was voted unanimously to look into renewing St. Michaels' membership in the A.P.P.A.

Mr. Corkran will meet again with the Utilities Commissioners at 2:00 P.M. on June 20, and review his projections at that time. After the Commissioners have thoroughly reviewed and collated all the information that has been collected by Mr. Corkran and themselves, they will request a meeting with the Town Commissioners, hopefully during the week beginning July 8. Delmarva can then be notified of the Town's intentions by July 15, 1991.

There was a short discussion about the choice of an arbitrator if one is necessary.

Joan Spencer, of Maryland National Bank, has requested to be on the agenda at the next Utilities meeting to discuss possible investment of the Sinking Fund monies. Mrs. Marshall was instructed to contact her and inform her that the Board can meet with her on June 20, at 4:00 P.M.

Following a reminder to Mr. Corkran to keep a log of his time and out-of-pocket expenses for future remuneration, the meeting was adjourned at 3:50 P.M.

Roberta H. Marshall

Roberta H. Marshall, Secretary-Treasurer

JUNE 20, 1991

The regular meeting of the St. Michaels Utilities Commission was called to order in the Town Office Meeting Room at 2:10 P.M. on Thursday, June 20, 1991. Commissioners Carroll Wills and Harold Bassett were present, as well as William H. Corkran, Jr. and Roberta H. Marshall. Commissioner Alex Spencer was unavoidably detained, but arrived at 2:40 P.M.

The minutes of the May meeting were approved as written and circulated.

Mr. Corkran reported that he contacted Paul Fry, Deputy Executive Director of the American Public Power Association, and Mr. Fry has agreed to meet with the Utilities Commissioners to discuss the lease agreement. A copy of the lease was forwarded to Mr. Fry, and he promised to compare it to other municipals' leases at the APPA convention. The meeting with Mr. Fry was tentatively scheduled for 10:00 A.M. on Wednesday, June 26, in the Town Office.

Discussion then turned to Mr. Corkran's progress on testing his 1986 projections. Mr. Corkran explained that he had not finalized all of his earlier figures, since he felt that some of the information used then was outside the parameters of the three provisions for changes listed in the lease. He stated that he felt strongly that the Board should stick with those three provisions. He noted that his projected number of customers was correct, and in fact almost the exact number of actual customers reported by Delmarva. He has continued with that projection, and has also reviewed the percentages of the class of customers served. These latter figures show that the character of the St. Michaels customer population has not changed. Mr. Corkran added that he could see no reason for a change in customer character in the future.

Mr. Corkran stated that he will need information on St. Michaels' KW demand in order to project the effect on Delmarva's system load factor. A letter will be written to Delmarva, requesting the information for each of the years. It was mentioned that it would be helpful to have both summer and winter peaks, as well as Delmarva's system demand figures, and that data will be requested also. Mr. Corkran will phrase the request to Delmarva, and bring it to the May 26 meeting for incorporation into a letter Mr. Wills will send to them, formally opening the negotiations for an increase in the lease.

Mr. Wills noted that the per-customer use of electricity has increased. Mr. Corkran stated that this is additional proof that the character of the St. Michaels franchise is to Delmarva's advantage.

Mr. Bassett questioned Mr. Corkran about the advisability of comparing Delmarva's net operating revenue with the lease payment. Mr. Corkran replied that the information might be useful in case of arbitration, but since it is not one of the three provisions of the lease it should not be used in the negotiations.

Mr. Bassett also discussed the cloudy meaning of the phrase, "changes in the general rate of inflation", which is a provision in the lease. He noted that the dollar amount which is being paid by Delmarva at present is purchasing fifteen percent less than in 1986, due to inflation. Mr. Bassett indicated that he felt some way must be devised to make up for that. Mr. Spencer, who arrived during the discussion, questioned whether Delmarva would be willing to make up for past losses after the last agreement was accepted and signed in 1986. It was agreed that some way can be found to add the rate of inflation into the payment, possibly by using the CPI factor on an annual basis. This would merely be putting the rent into constant dollars.

There was general discussion about the procedures to be used during the up-coming negotiations, and the possibility of going to an independent arbitrator. Mr. Wills emphasized that the negotiations with Delmarva should be substantiated with good, solid numbers, and have legitimate reasons for any overlay. Then St. Michaels can stand firm on any request made.

The Town Commissioners will meet with the Utilities Commissioners on Friday, June 12, at 10:00 A.M.

At this point the Board was joined by Joan Spencer, of Maryland National Bank, and Pat Potter and Myron Oppenheimer from Security Trust Company, a separate division of Maryland National which was formed in 1989 to handle trust accounts. Mr. Oppenheimer presented an investment plan for the Sinking Fund, and distributed pertinent information on the method his firm uses in handling trust accounts. He noted that Security Trust acts as an agent for its investors, working within guidelines set up by the investor. Mr. Oppenheimer stressed that there is no legal obligation, and Ms. Potter stated that Security Trust is highly regulated. Mr. Wills explained that after the lease is re-negotiated a decision will be made and a recommendation will be made to the Town Commissioners on the Sinking Fund investment. He requested that a current Security Trust financial statement be sent to the Board, and informed them that their proposal will be considered along with other proposals when the decision on the fund is made.

There was no further business, and the meeting was adjourned at 5:00 P.M.

Roberta H. Marshall

Roberta H. Marshall, Secretary-Treasurer

JUNE 26, 1991

A special meeting of the St. Michaels Utilities Commission was held at 10:00 A.M. in the Town Office Meeting Room on Wednesday, June 26, 1991. All the commissioners were present: Carroll Wills, Alex Spencer and Harold Bassett. William H. Corkran, Jr., Paul Fry and Mrs. Marshall were also present.

Approval of the minutes of the June 20 meeting were deferred until the next meeting.

Mr. Wills noted the recent death of Town Clerk/Manager William B. Nicholson, Jr., and stated that a resolution will be passed at the next regular meeting acknowledging his contributions to the Utilities Commission and the respect that the Commission members had for him.

The floor was then turned over to Paul Fry, Deputy Executive Director of the American Public Power Association. Mr. Fry opened his remarks by saying that he has read the lease, and finds it remarkable for all the things it does not say. He asked for a brief review of the 1986 renegotiations of the lease payment, and that information was supplied by Mr. Spencer and Mr. Corkran. Mr. Wills noted that Delmarva, in turning down St. Michaels' original 1986 lease increase request, had given three basic reasons for their denial. He added that it appeared that the Town Commissioners at that time were not supportive of going to arbitration, possibly because of those reasons.

Mr. Fry was then asked if he knew of any leases similar to the one between St. Michaels and Delmarva. He replied that there are other leases, but there is no generic model and those other leases tend to be much more technical. The St. Michaels/Delmarva lease cites three factors for an adjustment in the rental amount, but does not define those factors in any detail, nor does it give any guidance as to the weight of those factors. Mr. Fry noted that this lack of clarity could be a plus factor in St. Michaels' favor, as well as having a down side. He added that he felt that the Town is in a very strong position in regard to the three reasons for adjustment that are listed in the lease, and that there is a good basis for standing firm.

Mr. Wills asked if other leases were indexed. Mr. Fry replied that not all of them, but generally they were. He explained that most leases are tantamount to sales of the leased utility, and make it extremely hard for a municipal to get it back. The utility must be taken back all at once, and Federal law prohibits the issuance of tax free bonds to provide funds to buy the improvements. He also stressed that it is politically very hard to take a utility back. However, he cited a town in Ohio that had done so.

Mr. Wills asked for Mr. Fry's opinion about the wording in the lease which calls it a "lease of facilities" and not "lease of franchise". He questioned if improvements made by Delmarva would be considered leasehold improvements, thus making any addition made by Delmarva subject to depreciation over the term of the lease. Mr. Fry said it is his opinion that the Maryland Public Service Commission probably would not allow that. In answer to another question from Mr. Wills, Mr. Fry stated that any rights of way purchased by Delmarva in the St. Michaels franchise for use of provision of electric service in the St. Michaels territory will revert to St. Michaels when the lease is terminated.

Mr. Fry reiterated that it is economically possible but politically difficult to take back a system after it has been leased. Mr. Bassett asked about options available to the Town at the end of the lease, and Mr. Fry stated that there are many: selling the system outright, running the system itself and using the same power supplier or a different one, leasing to another company, etc.

Mr. Fry informed the Commissioners that a steady, regular flow of information from Delmarva about the St. Michaels system is a very valuable tool, and he had questions about some of the procedures used in the 1986 negotiations. Mr. Wills stated that he had found a copy of a letter from Delmarva to David Mann in Mr. Corkran's file on the '86 negotiations, and the letter has proved very informative. Mrs. Marshall was instructed to contact Mr. Mann and Town Attorney Hickson to obtain any additional correspondence or information in their files that might not have been delivered to the office files. Mr. Spencer will bring his files also.

Mr. Fry mentioned that the services of a professional economist would be most useful in the negotiations. He stated that the Commission had missed the opportunity for a fair increase last time, and this should not be allowed to happen again. In the discussion that followed, Mr. Fry stated that an economist should be present from the beginning, since he could collect and organize the necessary information as well as give expert testimony if the negotiations go to arbitration. Mr. Fry volunteered to send a list of names of persons who might be contacted, and stated that the fees would depend on the length of negotiations and the amount of work involved in collecting and organizing the information. He added that the process looked very straightforward, and he did not think the fees would be prohibitive. Mr. Wills stated that he feels the present negotiations are very important, since a precedent will be established for the remaining two five-year periods. On a question from Mr. Bassett, Mr. Fry stated that he did not feel that it would be advantageous to talk to other utilities about their leases. He added that the process of arbitration would focus on the three conditions for change in the lease agreement, and the burden of proof for any other factors that are brought up


would be on whomever introduces them. If a professional economist is hired, the Utilities should defer to him in defining changes in the general rate of inflation.

Mr. Fry pointed out the value of the St. Michaels franchise to the Town as well as to Delmarva, and stated that he feels that the Town has a very strong case for a substantial lease adjustment. It was agreed, however, that the political backing of the Town Commissioners is absolutely essential.

Mr. Fry noted the advantages of having an economist involved from the very beginning of the negotiations, stating that, beside the obvious reasons, it would prove to Delmarva that St. Michaels has serious intentions to negotiate. After further discussion, he stated that he will send a list of experts qualified in utility matters. It was voted unanimously to contact someone, at least to see their credentials, as soon as possible.

Mr. Wills thanked Mr. Fry for coming to the meeting, and for sharing his obvious expertise with the Utilities Commissioners. He added that he was sure that Mr. Fry's views had a deep influence on all members of the committee.

There was no further business, and the meeting was adjourned for lunch at 11:50 A.M.



Roberta H. Marshall, Secretary-Treasurer

JULY 12, 1991

A special meeting of the St. Michaels Utilities Commission was held on Friday, July 12, 1991 in the Town Office Meeting Room for the purpose of informing the Town Commissioners on the progress in preparations for the lease renegotiations.

The three Utilities Commissioners met at 9:30 A.M. to take care of a few routine matters before meeting with the Town Commissioners.

Mr. Wills directed that a letter be sent to Paul Fry, expressing the Commission's appreciation for his advice to the members and for the information he sent immediately after the meeting.

The approval of the minutes of the last two meetings were deferred to the next meeting.

Mr. Wills reported that he has reviewed the information on expert witnesses sent by Mr. Fry. In a cover memo sent with his recommendations, Mr. Fry noted that one of them, John W. Wilson of J. W. Wilson Associates, has a home near St. Michaels and has recently successfully concluded a case for Newark, Delaware against Delmarva. After discussion, a motion was made by Mr. Spencer to contact Mr. Wilson for an interview to discuss fees, etc., in regard to the possibility of working for the Utilities. The motion was seconded by Mr. Bassett, and passed by unanimous vote.

Mr. Spencer noted the recent outages on the St. Michaels system due to storms, and suggested that a letter of complaint should be sent to Delmarva, thus showing for the record that the Commission is still interested in the welfare of St. Michaels' customers. The Commissioners were in agreement about the need for contact with Delmarva, but decided that such a letter would be inappropriate until after the negotiations are completed. After the negotiations, formal contact with Delmarva must be made regularly, possibly on a quarterly basis, about many facets of the system in order to document the involvement of St. Michaels.

There was no further business, and the meeting was closed until 10:00 A.M.

Meeting With Town Commissioners

Town Commissioners Stanley Brewer, Linda Meara, John Dunlap and Gerald Edmondson attended the meeting with the St. Michaels Utilities Commission at 10:00 A.M. Commissioner William Patchett was absent.

Mr. Wills thanked the Town Commissioners for coming and explained that he had requested the meeting for the purpose of discussing the negotiations of the lease with Delmarva. After a short description of the lease and the St. Michaels franchise, he explained the renegotiation process for the lease payments and the procedures which will take place at the end of the twenty-five year period. Mr. Wills touched on the undercapitalization of the Sinking Fund, and added that the Utilities Commissioners feel that the lease must be renegotiated very aggressively at this time in order to make the fund actuarially sound.

Mr. Wills spoke of the help given the Utilities by Paul Fry, Deputy Executive Director of the American Public Power Association, and added that Mr. Fry had suggested that the Utilities contact a professional economist for aid in the negotiations. He stated that Mr. Fry sent a list of qualified firms, and that the Utilities Commission has decided to interview an individual who has recently successfully completed negotiations against Delmarva and who lives near St. Michaels.

Mr. Wills reviewed the history of the 1986 negotiations, which resulted in a \$30,000 per year increase in the rent payments. He stated that, based on the facts that are known now, that figure was unreasonably low. Mr. Wills reminded the Town Commissioners of the three reasons for changes in the lease, and stated that the number of customers in the St. Michaels franchise has increased by forty percent in the last ten years. He added that gross revenues from the franchise have increased sixty-two percent, while the net revenues are estimated to have increased sixty-eight percent. Kilowatt hour sales have increased sixty-seven percent during the period. The lease payments have increased by only nine percent.

Mr. Wills stated that the Utilities Commissioners believe there is definitely a strong case for an increase in the rent, but the backing of the Town Commissioners is imperative. He mentioned that the Utilities has been warned that the Town is up against a large company and they will be very aggressive. He added that the Utilities members have also been told that inflation has eroded the actual income from the lease by fifty percent, and any reasonable arbitrator is not expected to rule on a lesser amount. Mr. Wills stressed that a very large amount of money is at stake over the period remaining in the lease, and it is essential to be aggressive to get the Sinking Fund actuarially sound. However, the Town Commissioners must give their full backing to the negotiations. He warned the Town Commissioners that they might expect extensive lobbying, since the Utilities system is an important asset. Mr. Wills stated that the Utilities Commissioners feel strongly about the need to stand firm, and asked for the Town Commissioners' tacit approval to go to arbitration if necessary.

Mr. Spencer spoke of the 1986 negotiations, stating that they were not very successful because Delmarva knew that the Town did not want to go to arbitration. He added that, if the Town is not aggressive now, St. Michaels will not only lose rent monies over the period but will be in poor shape to renegotiate the lease or to take back the facility at the end of the lease. Mr. Spencer also spoke of the franchise area, and mentioned possible ways the Town Commissioners might be faced with the stress of political lobbying. At Mr. Spencer's request, Mr. Wills discussed the many options that will be available to the Town at the end of the lease if the Sinking Fund is adequate. Mr. Wills stated that those future decisions cannot be made if the problems are not recognized at the present time, since the impact of negotiations will grow less as the period of the lease nears the end.

Mr. Wills again spoke of the need for the approval of the Town Commissioners. He stated that historical data is available to prove the Utilities' request, and that the negotiations will be made in good faith. He added that the Town Commissioners will be kept fully informed of the progress being made. Before asking for questions from the Town Commissioners, he stated that the Town Commissioners are looking at a decision that will affect the Town fifteen years from now. He added that it is his personal opinion that it will be too late if the decision is put off to the next negotiation period in five years.

Mr. Dunlap asked if Delmarva might start to add assets to the system in order to make it harder for St. Michaels to take the system back. Mr. Wills stated that he has tested their information, and the Utilities Commission expects to get much more information after the negotiations are completed. He explained that it is the Utilities' intention to keep information about Delmarva's record-keeping out of the negotiations. However, once the lease negotiations are completed the Town will know what the new cash flow is so that plans can be made for the future, and questions can be asked about Delmarva's record-keeping. He added that an actual inventory will be necessary in the future, and this will confirm or negate Delmarva's figures. Mr. Wills stated that Delmarva's information can be used in many ways over the next fifteen years, and he expects that the system will be completely rebuilt by that time. This will result in a more valuable asset for the Town, and an excellent source of revenue.

Mr. Dunlap asked if an inventory of the system was made at the inception of the lease. He was told that none was made. Mr. Spencer stated that the lease was primarily based on the franchise, and revenue figures are on file with the Maryland Public Service Commission. Mr. Dunlap also asked if Delmarva would be allowed to drag on a new lease negotiation, thus creating prohibitive legal fees. Mr. Wills replied that Delmarva is subject to the rules of the Public Service Commission, and that the Town would have recourse through them.

Mr. Dunlap also spoke of the possibility of attack through the media. Mr. Bassett stated that the Town must establish its credibility in the present negotiation process and focus on the section of the lease which lists reasons for a change in the rental. An arbiter will only be allowed to consider the conditions of the lease.

Mr. Dunlap asked about the anticipated cost of the negotiations. Mr. Spencer noted that actual figures are not available yet, but that any money spent will be an investment in the future. Mr. Wills stated that Mr. Fry has estimated that the decision process, if the case goes to arbitration, would take three or four months; Mr. Fry thought the cost might run to \$10,000, although he expected it to be less. It is not expected that any attorneys will be involved. Mr. Wills added that the Utilities Commission already has a fund which should cover the costs. He again stressed that Delmarva must believe that the Town is willing to go to arbitration, and that the Utilities Commission must have the backing of the Town Commissioners.

Mr. Dunlap noted that the Town has been spending the income generated by the Sinking Fund, and asked if that practice should be continued. Mr. Wills stated that this question can be answered after the negotiations are completed, but it is hoped that it would be possible for the Town to spend part of the income.

Mrs. Meara asked if the current lease can be changed. Mr. Wills replied that the question would be deferred to the expert if one is hired, but the lease can be renegotiated at any time if both parties agree. Mr. Bassett stated that if the negotiations go to arbitration any ruling would establish a precedent for the future. Mr. Wills added that the Public Service Commission has ultimate approval of the lease, and this will also help to establish a record.

Mr. Spencer stated that there are many options open to the Town now that were not available in 1981, and he stressed the need for strong backing by the Town Commissioners.

There were no further questions, and Town Commission President Stanley Brewer stated that he feels it is mandatory to proceed aggressively with the negotiations now in order to preserve the franchise for St. Michaels. Mr. Brewer added that otherwise St. Michaels will be at Delmarva's mercy at the end of the lease. Mr. Dunlap then made a motion that the judgment of the President of the Town Commission stands as the judgment of the entire Town Commission. His motion was seconded by Mr. Edmondson, and passed by the unanimous vote of the four Town Commissioners present.

Mr. Dunlap thanked the Utilities Commissioners for their efforts for the Town. His remarks were expanded by the other Town Commissioners.

Mr. Wills thanked the Town Commissioners for their support, and stated that he will proceed immediately to contact an expert. The group will meet again as soon as necessary.

There was no further business, and the meeting was adjourned at 11:20 A.M.

Roberta H. Marshall
Roberta H. Marshall, Secretary-Treasurer

WHEREAS, William B. Nicholson, Jr. served the citizens of the Town of St. Michaels faithfully as Town Clerk/Manager from May 1, 1984 until his untimely death on June 24, 1991, and

WHEREAS, he provided the Utilities Commission with his expertise in financial affairs and shared his political knowledge and common sense whenever it was requested, and

WHEREAS, his expert advice and good counsel will be greatly missed by all of the members of the Utilities Commission,

BE IT THEREFORE RESOLVED, that the members of the St. Michaels Utilities Commission express their deep regret and their great feeling of loss, and

BE IT FURTHER RESOLVED that this statement be spread upon the minutes of the July meeting of the St. Michaels Utilities Commission and that a copy be sent to his family.

Attest:

Roberta H. Marshall
Roberta H. Marshall

Carroll J. Wills, Jr.
Carroll J. Wills, Jr., President

Alex J. Spencer
Alex J. Spencer

Date: July 22, 1991

Harold Bassett
Harold Bassett

MADE IN U.S.A.

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JULY 22, 1991

A meeting of the St. Michaels Utilities Commission was held in the Town Office Meeting Room on Monday, July 22, 1991 in order to interview John W. Wilson of J. W. Wilson Associates. All Commissioners were present: Carroll Wills, Alex Spencer and Harold Bassett. The meeting was called to order at 10:05 A.M.

The minutes of the June 20, June 26 and July 12 meetings were approved as written and circulated.

Mr. Wills thanked Mr. Wilson for coming, and gave him a copy of the St. Michaels/Delmarva lease. He then explained the background of the lease and gave a brief history of the 1986 renegotiations for the rent which resulted in an increase from the original \$230,000 to \$260,000 per year. He mentioned the three reasons for a revision of the rent monies and the provisions made in the lease for the end of the lease period. He noted that the annual information submitted by Delmarva was rather vague during the first five years, but that it is a little more detailed now. Mr. Wills informed Mr. Wilson that, based on Delmarva's figures, KWH sales have increased by about seventy-four percent, net revenues have increased about seventy-two percent, and the growth in St. Michaels' customer base has been about forty percent since 1981. He added that the value of the dollar has decreased during that period by approximately forty-two percent. Mr. Wills stated that the Utilities Commissioners feel that they must attempt to negotiate aggressively for a sizable increase in order to meet the demand that will be made on the Town at the end of the lease period in fifteen years.

Mr. Wills explained the Sinking Fund and how payments are made to it, and touched on the undercapitalization of the Fund. He spoke of Delmarva's additions to the system, and his work on their depreciation schedules. He also mentioned the value of the St. Michaels franchise. The area covered by the franchise was touched on, and Mr. Spencer pointed out its close proximity to Delmarva's territory. It was noted that approximately two-thirds of St. Michaels customers are outside the town limits.

The possibility of Delmarva's expansion of the Bloomfield Substation, which could result in future complications in the lease, was also discussed. Mr. Wills stated that he will require that Delmarva meet with all three members of the Commission if Delmarva makes a request for such an expansion.

Mr. Wills spoke of the time frame for the lease negotiations, and the Utilities' need for expert advice during the period. After confirming that Mr. Wilson's firm could help in that way, he asked if Mr. Wilson could give a non-binding conception of the costs involved. Mr. Wilson asked if a lawyer

will be used to handle the legal details, stating that it is important to plan for the end of the lease in fifteen years. Mr. Wills stated that there appeared to be no need for an attorney at this time since the lease covers the use of a third party arbitrator. It was felt that the case for an increase was strong enough to merit a sizable increase based on Delmarva's figures. Mr. Wills added that the Town wants to keep the Utilities system as an earning asset, and he feels it is desirous to base the negotiations solely on the three reasons for changes given in the lease. These have not only been agreed upon by St. Michaels and Delmarva, but have also been approved by the Maryland Public Service Commission. Mr. Bassett added that Mr. Fry had said that the services of an economist would be more valuable than those of a lawyer at the present time. Mr. Wilson noted that an attorney who is fully informed on the electrical industry will ultimately have to carefully review any final agreement, and it might be wise to have one from the start. He added that the arbitration might even wind up in court if Delmarva was not satisfied with the ruling, although it was highly unlikely.

Mr. Wilson then asked if he could outline possible options for remuneration, and he stated that he would do so. He also offered to talk to Wallace Duncan, the attorney who worked with him in previous municipal cases and is familiar with Delmarva, to get an idea of the legal ramifications. Mr. Duncan has had a summer home near here, and is familiar with the area. Mr. Wilson noted that ninety percent of the services provided by his firm are billed at time and expense, and anyone who worked on the negotiation would be reluctant to set a ceiling on the costs involved since the amount of work and time involved is an unknown factor. He did not recommend setting the fee on a percentage basis, since it might discredit any testimony given at arbitration. Mr. Bassett asked if it would be possible to outline his fee up through arbitration.

Mr. Wills noted that Mr. Fry had recommended that an expert be present at the very first meeting with Delmarva. Mr. Wilson stated that his normal rate for municipals is \$175 per hour, and the fees for data analysts, etc., would be less. He would be willing to enter into an agreement with the Town at that hourly rate. The agreement would include a "not to exceed" ceiling of either \$30,000 or one year's worth of the increase in case the negotiations go to arbitration. Based on Mr. Wilson's quote, it was unanimously agreed to have him review the lease and report back to the Utilities Commission as soon as possible.

Mr. Wills turned over his workpapers to Mr. Wilson for his further information. He noted that the Utilities Commission is aware that they are dealing with a precedent, as well as future dollars that will be received over the next fifteen years, and are anxious to begin negotiations.

In answer to questions from Mr. Bassett, Mr. Wilson stated that he will be doing the work on the project himself, and he offered to get an idea of the attorney's fees if the Commissioners desire to hire one to work simultaneously with him. Mr. Wilson added that Mr. Duncan would probably work on a straight hourly arrangement, and the fees would likely be approximately half of his own fee. It was unanimously agreed to ask Mr. Wilson to contact Mr. Duncan for the information.

Mr. Spencer reminded Mr. Wilson that the Utilities Commission serves as an advisory board to the Town Commissioners, and Mr. Wills added that the Town Commissioners have given their full support to an aggressive negotiation. Mr. Wilson will send a resume for the Commissioners' perusal.

Following a short discussion about information that Mr. Wills has compiled from figures supplied by Delmarva, the meeting was adjourned at 11:45 A.M.



Roberta H. Marshall, Secretary-Treasurer

AUGUST 9, 1991

A special meeting of the St. Michaels Utilities Commission was called to order at 10:15 A.M. in the Town Office Meeting Room on Friday, August 9, 1991. Mr. Wills and Mr. Bassett were present; although Mr. Spencer was away on vacation, a quorum was present. John W. Wilson, of J. W. Wilson & Associates, and Roberta Marshall were also present.

The minutes of the meeting of July 22 were approved as written and circulated.

Mr. Wilson submitted a proposed agreement regarding his services to the Utilities. Mr. Wills stated that the agreement will be reviewed, signed and returned pending Mr. Spencer's return.


The chief reason for this special meeting was to discuss strategy for the upcoming negotiations with Delmarva Power and Light. It was decided to go into executive session at this point, since the information to be discussed was sensitive as well as tentative at this time.

During the session, Mr. Wilson spoke of his progress in gathering information and discussed possible avenues to be explored.

After the executive session, Mr. Wills submitted a record of a phone call he received from Van Somers, a Delmarva employee. The record of the phone call was made an official part of the minutes of the Utilities Commission, and is attached. Mrs. Marshall was instructed to contact William Corkran to see if he can attend a meeting with Mr. Somers and the Utilities Commission, and to set up a suitable date.

Mr. Wills advised the Board that he will write a letter to Delmarva, requesting that they send the Annual Review of Operations for the year ending July 31, 1991 as soon as possible. He will also request that they expedite the July 31 figures on asset improvements on the St. Michaels system along with the appropriate depreciation records. Load factor statistics for 1989, 1990 and 1991 will be requested in the same letter.

There was no further business, and the meeting was adjourned at 12:30 P.M.


Roberta H. Marshall, Secretary-Treasurer

July 31, 1991

To be recorded in the minutes of the next regularly scheduled meeting of the St. Michaels Utility Commission:

During the week of July 21st a message was left on my answering machine to call Van Summers at 1-302-454-4459. Mr. Summers advised that he was employed by Delmarva Power & Light Company and that the call was in reference to the Bloomfield Substation.

I returned the call on July 29th and left a message.

Mr. Summers called again at about 10:00 A.M. on July 31, 1991.

Mr. Summers advised that he was working with "engineering" on plans to expand the Bloomfield Substation some time in late 1992 or early 1993. He advised that he had read the lease twice and reviewed the file of the negotiations held in 1981 and could not determine the latitude the DMVP&L had regarding improvements on the balance of the property located at the Bloomfield station.

In response to specific questions; Mr. Summers advised that he had reviewed the site plans and that we were currently utilizing 9,000 square feet of the site and that left a little under six thousand square feet at the site for improvements. He had engaged McCone Inc. to survey the perimeter and determine the "wetlands delineation" and determine the "legal ramifications" of expanding the station. He also believed that it would be important for attorneys to opine on the ownership of any improvements.

Specifically, the improvements were to maintain the reliability of the St. Michaels Township and the "general" area; five to ten years down the road. Also, there were plans to "change-out" a 69FD line and replace the cable to maintain reliability for Easton & Bozman but this was being handled by a different department and he did not know the specifics of that project.

His project would make the Bloomfield "mobile ready". This means if a transformer were to go out they could bring in a "mobile unit" from Salisbury and maintain service while the problem was being corrected. He referred to peak demands when discussing the probability of such an occurrence.

Just prior to closing our conversation; Mr. Summers advised that they were not planning to purchase the property at the Bloomfield location but that this was always an option. I was not enthusiastic about this idea.

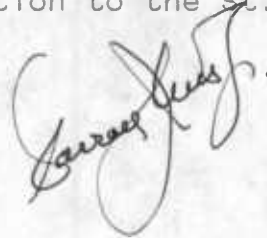


It should be noted at this point that Mr. Summers did not know a great deal about what engineering had planned but did know about the "change-out" of the 69FD line. He did not know what improvements were being made at the Bozman Substation but did know that something was being done there. He did not know why these plans did not include the Bozman Substation since that was one of the areas specifically mentioned that need the improvement.

At this point I advised Mr. Summers that he would be required to meet with the St. Michaels Utility Commission and that he should bring someone (from engineering?) with him to explain the need for these improvements. I advised Mr. Summers that we were interested in the same thing he was interested in. We have a strong desire that the assets of DMVP&L and those of the St. Michaels Franchise NOT be commingled. He advised he would bring his boss with him and that we should have this meeting as soon as possible.

I asked him if the current negotiations regarding the lease would cause him any problems and he advised that he knew the lease was in the process of being renegotiated but that this was an entirely separate and unrelated matter.

I promised that I would get back to him within ten days to set a date for his presentation to the St. Michaels Utility Commission.

A handwritten signature in cursive script, appearing to read "Barry Jones", is written in the lower right quadrant of the page.

AUGUST 30, 1991

A meeting of the St. Michaels Utilities Commission was held in the Town Office Meeting Room on Friday, August 30, 1991. All members of the Commission were present: Carroll Wills, Alex Spencer and Harold Bassett. William H. Corkran, Jr., and John W. Wilson attended the meeting, as well as Mrs. Marshall.

The meeting was called to order by Mr. Wills at 10:10 A.M.

The minutes of the August 9 meeting were approved as written and circulated.

Mr. Wills reported on his efforts to set up a meeting with Mr. Somers of Delmarva Power in regard to the Bloomfield Substation. He also informed those present about his letter to Larry Wood requesting information for the upcoming negotiations. Mr. Wills read a copy of his letter to Mr. Wood and read his notes on his efforts since the last meeting. The copies are attached to and become a part of these minutes.

Mr. Spencer questioned the effects of Delmarva's delay in supplying the requested information on the negotiations and on the St. Michaels franchise. Mr. Wilson stated that he would go into the questions in detail, but any discussion about the negotiations should be off the record. The group then went into executive session to discuss the upcoming negotiations.

At the close of the executive session, Mr. Wilson left the meeting and the following points were made part of the record:

(a) During executive session, Mr. Wilson presented a draft of a letter to be sent to Delmarva opening the negotiations. The Commissioners thoroughly reviewed the letter, and made a request for certain revisions. Mr. Wilson promised to make those revisions and deliver a final draft on Tuesday, September 3, at which time the Commissioners will make any necessary final revisions. All three Utilities Commissioners will agree on the content of the letter before it is sent to Delmarva.

(b) Mr. Corkran was asked to contact Easton Utilities to determine if they are involved in any negotiations with Delmarva that would require the proposed improvements at the Bloomfield Substation.

(c) The financial information that was distributed by Mr. Wilson will not be made an addendum to the minutes at this time, but will be maintained in a confidential file until after the negotiations with Delmarva are completed. They will then be made a part of the documentation of those proceedings, and placed on public record.

A letter was received from Maryland National Bank, advising that the special deposit will mature on September 10, 1991. It was recognized that some of these monies will be needed in the near future, and information will be gathered on current rates on a no-penalty Certificate of Deposit. The Commissioners will decide on the disposition of the funds after information is received and evaluated.

There was a discussion about the agreement for Mr. Wilson's services. It was decided to request a codicil stating that the contract can be cancelled in writing at any time by either party. Mr. Wills will discuss this with Mr. Wilson when he calls him to request the return of his personal workpapers.

Mr. Wills reported that he had noticed an article in the paper stating that the local cable company may have to inspect the utility poles before adding their lines to them. Acting Town Manager Jean Weisman was called into the meeting to see if a copy of that inspection can be secured for the Utilities Commission, since it might be very useful in the future. Mrs. Weisman also explained the charges for franchise fees that have recently appeared on customers' bills. Mr. Wills will draft a letter for Mrs. Weisman to send to Simmons Cable, requesting a copy of the survey.

Following a short discussion of the Utilities' progress to date in preparing for the negotiations, the meeting was adjourned at 12:25 P.M.



Roberta H. Marshall, Secretary-Treasurer

Notes for August 30, 1991 Meeting

- 8/12/91 Called Van Sommers re: 8/28/91 meeting. Left message for him to return my call.
- 8/13/91 Called Van Sommers re: 8/28/91 meeting. Left message for him to return my call.
- 8/13/91 Went to DMVP&L Office in St. Michaels to deliver letter requesting information for scheduled negotiations. Advised we expected to open negotiations first week of September. Mr. Wood unavailable. Posted letter. (Attached.)
- 8/14/91 Called Van Sommers re: 8/28/91 meeting. Left message that if I did not receive a call we would be expecting them at 10:30 AM on 8/28/91.
- 8/14/91 Received call from Larry Wood. Discussed items 1, 2 & 3 of our letter. Larry advised he could see no problem but could not get started until Ken Jones came back off of vacation (8/19/91).
- 8/22/91 Rec' call on answering device from Van Sommers, "Cannot make meeting of 28th because 'Key People' will be out on vacation."
- 8/23/91 Called Van Sommers. What key people? You advised you needed this meeting ASAP. We are discussing improvements to system at year end 1993. Other departments are involved now.. Elmer Short.. communications.. was involved in the original negotiations for St. Michaels Franchise. What does that have to do with planning in 1993 and 1994? When other departments get involved.. When do you want this meeting? Cannot say at present time.
- 8/23/91 Called Mr. Wilson. Earliest that we can meet is 8/30/91. You advised we would start negotiations first week in September. Do we invite Mr. Frye on Labor Day weekend? We decide to meet and invite Mr. Frye at a later date if deemed necessary. Mr. Wilson mentions Mr. Duncan again. I asked Mr. Wilson if he knew who Mr. Short was. He advised that he was involved in the Seaford negotiations and worked for Mr. Jones.



8/28/91 Received a call from Larry Wood. He advised that Delmarva Power would not be able to enter negotiation until the last week of September or the first week of October. The reason he gave was that Mr. Jones was a busy man and that was the earliest he could meet with us. I asked if Mr. Jones was the only person in DMVP&L that could represent the company. Larry advised that he might be able to get us the meter readings requested within two weeks (item #3). I advised that was ridiculous since they were recorded a month ago. Larry advised that they were on schedule for the "Operations Report" (item #1) and they hoped it would be ready the first week of October. I advised that this was after negotiations have commenced and that they have known that this information is needed for this period for ten years. Larry advised that they did not know when the fixed asset ledgers would be ready because the man that took care of them had a heart attack. I advised that there were eleven ledgers with 332 entries in the last ten years and that this averaged to less than three entries a month. The ledgers were supplied as of the end of March but they could not update approximately twelve entries. DMVP&L does not have anyone else in the company that can manage these accounts? Mr. Wood advised that Mr. Short was in the Sale and Repurchase of power department.



ST. MICHAELS UTILITIES COMMISSION

ST. MICHAELS, MARYLAND 21663

August 13, 1991

Delmarva Power and Light, Inc.
Rt. 33 and St. Michaels Road
St. Michaels, Maryland 21663

Att: Mr. Larry Wood

Re: St. Michaels Review of Operations

Dear Mr. Wood:

Thank you for the computer print-outs representing the capital asset investment in the St. Michaels franchise as at March 31, 1991.

During our meeting with you and Mssrs. Kenneth Jones and George Vapaa on May 22nd, we indicated that we would be requesting additional information and you advised that it would be no problem for you to supply additional information needed by or for the Utility Commission of St. Michaels and offered to have a representative of DMVP&L meet with us to explain the depreciation schedules and physical descriptions.

In order to establish a sound basis for the September negotiations regarding section 2.3 of our lease and an actuarial basis for the St. Michaels Utility Sinking Fund; we need the following information as soon as possible:

1. An additional set of printouts representing the capital investment in the St. Michaels franchise as at July 31, 1991.
2. An annual "Review of Operations" at your earliest convenience. In the past you have supplied this information early to us in order that we may be better prepared for the negotiations. If you could render us this service again we would be most appreciative.
3. We need the monthly metered statistics for the St. Michaels system demands (KW) and energy requirements (KWH) at the Bloomfield and ST. Michaels substations for the years of 1989, 90 & 91.

Thank you for your many past courtesies.

Sincerely,

Carroll J. Wills Jr.
St. Michaels Utility Commission

cc: Mr. Kenneth K. Jones
Vice President

SECRET
Page 2



ST. MICHAELS UTILITIES COMMISSION

ST. MICHAELS, MARYLAND 21663

September 4, 1991

Mr. Kenneth K. Jones
Vice President, Planning
Delmarva Power & Light Company
800 King Street
Wilmington, Delaware 19899

Dear Mr. Jones:

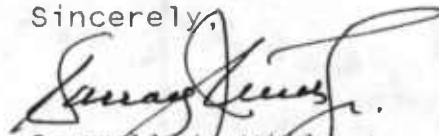
In accordance with Article 2.3 of the 1981 Lease Agreement between St. Michaels and Delmarva Power & Light Company (Delmarva), St. Michaels believes that the Annual Rent for the St. Michaels franchise should be increased to \$600,000 per annum.

This increase is based upon the factors specified in Article 2.3 and other related economic considerations as well as the increased income that Delmarva is deriving from the St. Michaels lease, the increased value of the St. Michaels franchise, inflation and franchise growth. During the past decade, sales growth in the St. Michaels franchise has been fifty percent greater than growth on Delmarva's own system. Over the same period of time, inflation of nearly fifty percent has greatly reduced the economic value of St. Michaels Annual Rent in contrast to the substantially enhanced value of the franchise. Adjusting our original annual rent (\$230,000) for growth and inflation results in a revised Annual Rent amount of \$600,000.00.

An Annual Rent of \$600,000 is also consistent with the increased value of Delmarva's own electric utility business during the last ten years, especially considering St. Michaels' greater growth. The values cited above do not include any adjustments that would effect profitability subsequent to 7/31/90. In the event that Delmarva does not agree with this increase in the Annual Rent, St. Michaels will require, and has previously requested, additional information updating operational and financial data from Delmarva so as to prepare a more up to date and detailed analysis suitable for presentation to an independent third party in accordance with the resolution provision of Article 2.3. Naturally, we reserve the right to revise the annual rent based on this additional information.

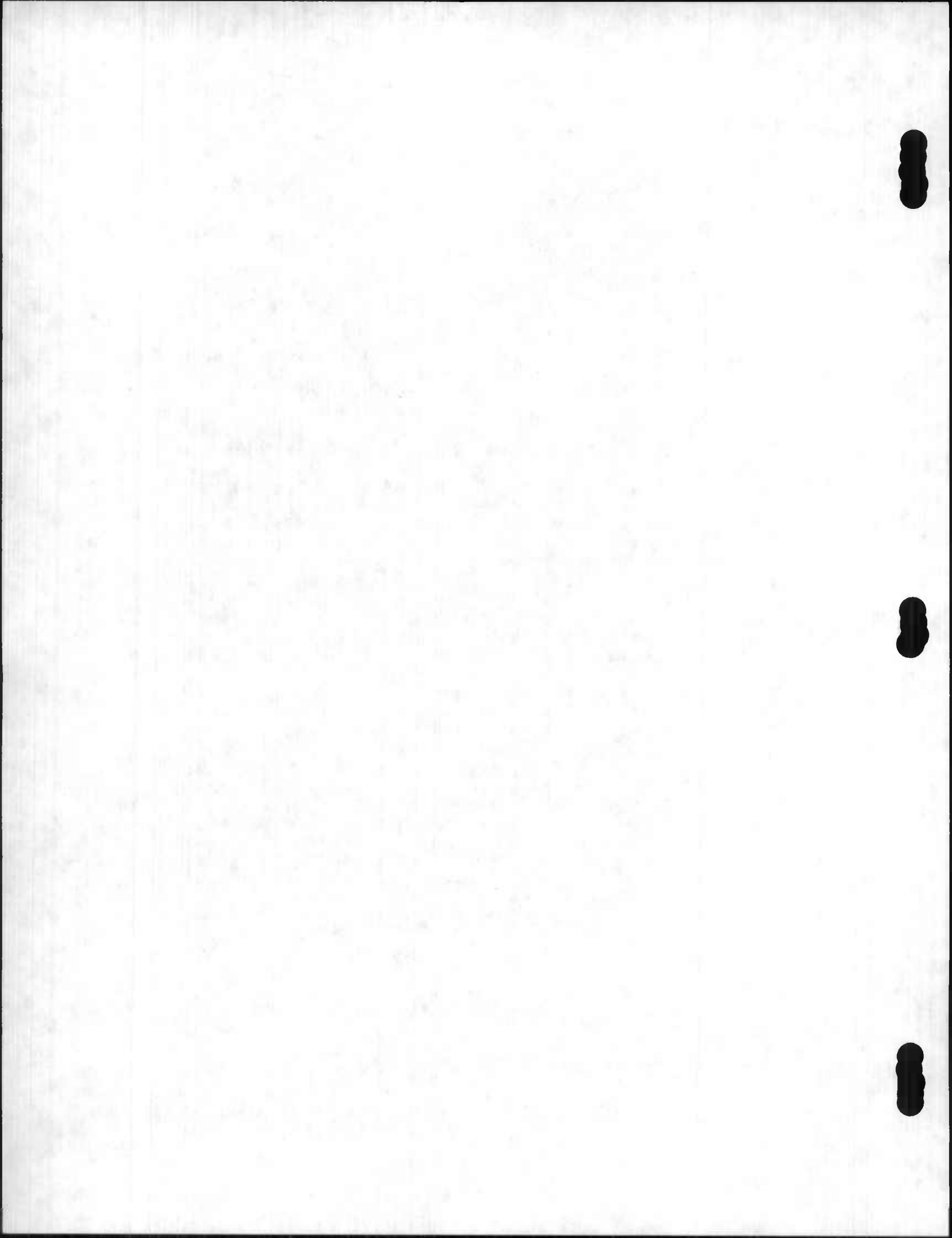
We look forward to discussing this matter with you at the earliest opportunity. Regrettably, we have been informed that you will not be available to meet with us before the last week in September. Please advise the earliest date you will be available for negotiations.

Sincerely,



Carroll J. Wills Jr., for the
St. Michaels Utility Commission

Certified Mail
P 265 363 040



September 14, 1991

J.W. Wilson & Associates, Inc.
2600 Virginia Avenue N.W.; Suite 312
Washington, D.C. 20037

Att: Mr. John W. Wilson

Dear Mr. Wilson,

Enclosed you will find part of the information requested from Delmarva that was expected to the first week of October. It appears that our letter expedited two of our requests. Also enclosed for your files is a copy of the final draft of that letter. As you can see, we tried to use what we collectively believed were the better parts of each of your letter drafts.

The "demand & energy delivered" statistics will, hopefully, allow you to refine the numbers presented in your estimates of "Revenues and Allocated Expenses" for the city of St. Michaels. You may want to refer to this as the St. Michaels Franchise since the revenues and expenses are derived from an area that exceeds the boundaries of the city of St. Michaels.

The revenue figures received from Delmarva will bring the growth figures current however these figures are not consistent with figures previously received from Delmarva.

By now, we have probably set a date to meet with Ken Jones to begin negotiations. Please send the source work sheets to support the request for \$600,000/annum, i.e. source and reference of the index used for the "inflation factor" in the letter, source and reference for "value of Delmarva's own electric utility business...", etc. We may be asked to defend some of our assumptions in the letter and should be at least conversant with the source of the information.

Please bring my binder containing Delmarva's reports to our next meeting. As previously stated, please feel free to copy any or all of the contents before you return the book to me.

Bobbie has asked that you return the copies of the Form Ones if you have finished extrapolating the data you need.

September 14, 1981

J.W. Wilson & Associates, Inc.
2800 Virginia Avenue N.W.; Suite 312
Washington, D.C. 20037

Att. Mr. John W. Wilson

Dear Mr. Wilson,

Enclosed you will find part of the information requested from Delmarva that was expected to the first week of October. It appears that our letter expedited two of our requests. Also enclosed for your files is a copy of the final draft of that letter. As you can see, we tried to use what we collectively believed were the better parts of each of your letter drafts.

The "demand a energy delivered" statistics will, hopefully, allow you to refine the numbers presented in your estimates of "Revenues and Allocated Expenses" for the City of St. Michaels. You may want to refer to this as the St. Michaels "findings" since the revenues and expenses are derived from an area that exceeds the boundaries of the City of St. Michaels.

The revenue figures received from Delmarva will bring the growth figures current however these figures are not consistent with figures previously received from Delmarva.

By now, we have probably set a date to meet with you to begin negotiations. Please send the source work sheets to support the request for \$800,000/annum. The source and reference of the index used for the "inflation factor" in the letter, source and reference for "value of Delmarva's own electric utility business..." etc. We may be asked to defend some of our assumptions in the letter and should be at least conversant with the source of the information.

Please bring my binder containing Delmarva's reports to our next meeting. As previously stated, please feel free to copy any or all of the contents before you return the book to me.

Bobbe has asked that you return the copies of the form. One if you have finished extrapolating the data you need.

J.W. Wilson & Associates, Inc.
September 14, 1991
Page 2

Finally, the Commission requests that you insert a codicil in your Consulting Proposal stating that the contract can be cancelled by written notice at any time by either party. We plan to have you sign the letter and will endorse it for you at the next meeting.

This letter has become much longer than I had anticipated. You are probably accustomed to having the correspondence become more detailed as negotiations go forward. This is a new experience for me.

I look forward to seeing you at the next meeting. Please advise how we can become better prepared for this initial meeting.

Sincerely,

Carroll J. Wills Jr.

J.W. Wilson & Associates, Inc.
September 14, 1991
Page 2

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codicil to your Consulting Proposal stating that the
contract can be cancelled by written notice at any time by
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correspondence become more detailed as negotiations go
forward. This is a new experience for me.

I look forward to seeing you at the next meeting.
Please advise how we can become better prepared for this
initial meeting.

Sincerely,

Carroll J. Willie, Jr.

SEPTEMBER 24, 1991

A meeting of the St. Michaels Utilities Commission was held in the Town Office Meeting Room on Tuesday, September 24, 1991. The purpose of the meeting was to meet with representatives of Delmarva Power and Light Company to begin negotiations for an increase in the annual rent for the St. Michaels system. All three Commissioners (Carroll Wills, Alex Spencer and Harold Bassett) were present, as well as William H. Corkran, Jr., John Wilson and Roberta Marshall.

Mr. Wills called the meeting to order at 11:20 A.M.

The minutes of the last meeting were approved as written and circulated.

Mr. Wills entered a copy of his September 14 letter to Mr. Wilson as an addendum to the minutes. The letter requested source sheets to support the increase in the annual rent to \$600,000, and the return of materials borrowed by Mr. Wilson for use in compiling the figures. The letter is attached to these minutes.

There was discussion about the bid for Mr. Wilson's services. Since the Utilities is working under limited resources, Mr. Wilson was asked to supply an interim report on the number of hours he has worked in September.

Copies of Mr. Wilson's source data were distributed, as well as a list of additional information that Mr. Wilson thought might be useful to request from Delmarva. Mr. Wilson explained how that information would be used, and it was pointed out that the additional information would lead to the profit motivation, rather than to the provisions specifically named in the lease. The data will be requested at a later date if it becomes necessary.

The Commissioners requested that Mr. Wilson submit a fact sheet, based on his experience, showing the value of the St. Michaels franchise. Mr. Wilson warned that Delmarva will argue that the physical property they rented is largely depreciated, but the right to provide electric service to the franchise area is worth a great deal.

On a motion by Mr. Bassett, seconded by Mr. Spencer, it was voted unanimously to pay Mr. Wilson's bill for August.

The balance of this part of the meeting was used to prepare for the meeting with Delmarva. The Commissioners agreed that they are entering the negotiations in good faith, and they want

to make Delmarva aware in this first meeting that they are serious in negotiating. Delmarva will be asked to supply detailed background material for any counter-offer they might make.

The meeting was temporarily adjourned at 11:50 A.M., to await the arrival of the Delmarva representatives.

MEETING WITH DELMARVA

Representatives from Delmarva Power & Light Company arrived at 12:10 P.M. to begin negotiations for the 1991 lease agreement. Vice President for Planning Kenneth Jones, Manager of Corporate Planning George Vapaa, Assistant General Counsel Peter Clark, and St. Michaels District Manager Larry Wood were in attendance.

Mr. Wills welcomed the gentlemen, and stated that the purpose of the meeting was to discuss the lease payments. He then referred to his letter to Delmarva which requested that the lease payments be increased to \$600,000 per year, and opened the meeting for discussion.

Mr. Jones stated that Delmarva's position was that any increase in the annual rent was unwarranted, and asked the Commissioners to explain the basis for their request. Mr. Wills pointed out that the lease outlines the areas to be considered in changing the rental amount. He noted the inflation rate and the growth of the St. Michaels franchise, and presented copies of worksheets containing backup information for St. Michaels' request.

Mr. Jones went over the worksheets to make certain he understood them, and then asked why the period used to detail the information was for the ten years since the lease began, rather than for the five years since the 1986 negotiations. Mr. Jones stated that any new customers added to the St. Michaels system had been paid for by Delmarva capital expenditures, and noted that the rate of inflation is quite different for the past five years than over the ten year period. Mr. Wills replied that the lease should be renegotiated according to its true worth. He stated that the 1986 rental figure was based on limited information, and added that Delmarva had refused to agree to St. Michaels' request to index the lease at that time. He stated that, although Delmarva's capital expenditures for customers in the St. Michaels franchise may have been considerable, that point should not be an issue since St. Michaels must pay the cost at the end of the lease.

Mr. Bassett pointed out that the reasons for a change in the rental amount are plainly stated in Section 2.3 of the lease, and added that those reasons were not considered in the 1986 negotiations.

Mr. Spencer stated that he is in agreement with Mr. Wills and Mr. Bassett, and suggested that Delmarva be given time to absorb the figures.

Mr. Jones said that Delmarva is leasing St. Michaels' facilities, rather than the franchise. He added that although the 1986 negotiations were carried on in good faith, St. Michaels is now not satisfied. Mr. Wills stated that the true value of the system must be taken into consideration, the value of the dollar is half what it was, and St. Michaels is only asking for an equitable amount. Mr. Wills pointed out that the lease talks of "ability to serve St. Michaels customers", which can only mean the franchise.

There was discussion about the \$60,000 figure that Delmarva has shown in its reports which lists the value of St. Michaels equipment. Mr. Jones explained that the amount is actually a credit to the Town for equipment that has been removed from the St. Michaels system and placed elsewhere on the Delmarva system. Mr. Jones agreed to furnish the Commissioners with a list of those items. He also noted that a breakdown showing the value of St. Michaels assets at the beginning of the lease would be most helpful to Delmarva, and the list will be sent to them.

Mr. Jones mentioned that there is no indication in the lease that its purchasing power will remain constant. He then stated that Delmarva has some sense of what is being proposed and the factors being considered, and added that Delmarva must have some time to consider it. Although a definitive answer could not be given at once, he suggested that the group should move along as quickly as possible due to the nearness of the lease anniversary date. Mr. Jones reminded the Commission that interest rates are down and that Delmarva Power has borne the cost of new hookups, and stated again that Delmarva sees no reason for a rent increase.

At this point the group decided to separate for a short time in order to further discuss the points that had been made. The meeting was temporarily adjourned at 12:50 P.M., after plans were made to reconvene at 2:30 P.M.

The St. Michaels Utilities Commission and representatives from Delmarva reconvened their meeting at 2:30 P.M.

Mr. Jones reported that they had looked at St. Michaels' backup figures again, as well as the lease and the joint filing to the Maryland Public Service Commission after the 1986 revision in the lease payment. He noted that there seemed to be a fundamental difference of opinion about the lease that will take time to work out. He stated that, in his opinion, the lease is specific about leasing the "facilities". He added that

paragraphs 6 and 7 of the PSC filing were also specific about the facilities. Mr. Jones also noted that there is disagreement about the date the starting point for any increase should be. In regard to the backup information that St. Michaels supplied, Mr. Jones stated that the lease does cite inflation as a reason to change the rent, but he feels that customer growth is a better indicator for change in the lease value than sales growth. He added that the market value of Delmarva stock should have no bearing on the value of the lease, and pointed out that the lease is very small compared to the total Delmarva operation and thus would have little or no impact on the stock.

Mr. Jones stated that they will supply the detail on the equipment that has been removed from the St. Michaels system, and noted that further information will be supplied on Delmarva's capital investment in the St. Michaels territory. Mr. Wills explained that his questions about the capital expenditures are not pressing, but will be necessary to have in the future when the lease is near the end. Arrangements will be made for Mr. Wills to get this information in Wilmington at a time convenient to both parties. The figures on the St. Michaels assets at the beginning of the lease and at the current time will be sent to Mr. Jones as soon as possible.


Mr. Jones suggested that all parties thoroughly review the lease and the 1986 PSC filing before the next session. He stated that Delmarva will rework the figures on St. Michaels' backup sheets, using 1986 as a starting date.

Before closing, Mr. Jones stated that he has no objections to having the negotiation sessions recorded on tape, but suggested that the sessions might be more relaxed if this was not done. He will be given a copy of the tape made at this meeting.

Mr. Bassett requested that, for the record, Delmarva's proposal be supplied to the Utilities Commission in writing. He also asked about the procedures of the arbitration process, if that becomes necessary. Mr. Clark spoke briefly about plans that were made for arbitration in 1986, and said he would look into the matter further. Mr. Bassett also asked for backup information for their proposal, and for any counter-proposal they might make, and Mr. Jones promised that it will be supplied.

In recognition of the late start in the negotiations, the group agreed to meet again as soon as possible. Mr. Jones noted that he will be in the area on Friday, October 4, and the group will try to meet on that date.

There was no further business, and the meeting was adjourned at 3:00 P.M.



Roberta H. Marshall, Secretary-Treasurer

OCTOBER 4, 1991

Members of the St. Michaels Utilities Commission met with representatives from Delmarva Power & Light Company at the Delmarva Office on Friday, October 4, 1991. The following people attended the meeting: Commissioners Carroll Wills, Alex Spencer and Harold Bassett, William H. Corkran, John Wilson and Roberta Marshall; the Delmarva representatives were Kenneth Jones, George Vapaa, Peter Clark and Larry Wood.

Mr. Wills opened the meeting at 10:40 A.M., explaining that a formal session was necessary in order to conform to state and local law. He added that it would be possible to go into executive session if the need arose.

Mr. Wills thanked Mr. Jones for his letter of October 2, which was received by fax machine on the same day. The original was delivered to Mr. Wills on October 3, and will be made a part of the public record of the negotiations. Mr. Wills noted that he had reviewed paragraphs 6 and 7 of the 1986 filing to the Maryland Public Service Commission, and agreed that growth and inflation were not taken into consideration in 1986. Mr. Wills stated that he did not agree with the conclusions in the letter regarding the franchise. After pointing out the sizable growth in the St. Michaels distribution system over the past ten years, Mr. Wills stated that St. Michaels still must file Form One with the Public Service Commission each year, and that St. Michaels is still responsible to the people in its franchise area. Mr. Wills remarked that the growth in the area has created an opportunity for profit, and that the growth has placed a burden on the Town to meet a greater burden at the end of the lease. He stated that the growth in income is funding capital assets being added by Delmarva. The Town is being asked to let the growth fund the assets, but will then have to pay for them at the end of the lease. Mr. Wills stated that the growth of the St. Michaels system and the impact of inflation have indicated a need for an increase in the rent. He added that it is the duty of the Utilities Commissioners, as public servants, to protect the rights of the citizens of the Town to prevent them from paying for something twice.

Mr. Jones stated that the lease does not contemplate a partnership between Delmarva and St. Michaels. He added that the 1986 increase in the rent was a negotiated amount that was not tied to any one factor. He stated that one factor in Delmarva's decision to pay the increase in 1986 was that the Town's electric bills were higher than anticipated. Mr. Jones said that he had stated in his letter that he saw no compelling reason for a change in the rent, and that, after looking at the inflation rate and other information, a decrease looked more possible than an increase.

Mr. Jones distributed the information St. Michaels had requested on the approximately \$60,000 in assets transferred out of the St. Michaels system and explained how those figures were derived. He also supplied a copy of Delmarva's recent filing to the Public Service Commission for an increase in rates. Arrangements will be made through Larry Wood for Mr. Wills to meet with Delmarva accountants in Wilmington to secure additional information about Delmarva's capital investments in the St. Michaels territory. Mr. Jones stated that the information St. Michaels requested on KWH demand is not available due to the type of metering used.


In an effort to come to some agreement, the meeting was adjourned to executive session at 11:00 A.M.

At 12:35 P.M. the executive session was ended. Mr. Jones stated, for the record, that the difference between the two parties was so great that it must be resolved by a third party.

The discussion then turned to possible methods of selecting an arbiter. On October 8 Mr. Jones and Mr. Wilson will discuss the names of persons they know who might be acceptable to both parties. Peter Clark will contact the American Arbitration Association sometime in the next week for a list of names of arbitrators. It was agreed that most of these preparations for arbitration can be done by telephone or fax machine. Mr. Wood will arrange for Carroll Wills to meet with the Delmarva accountants in Wilmington.

The rules for arbitration must be modified by the parties to reflect the circumstances. Mr. Jones requested that the negotiations be kept open in the meantime to allow for further negotiations in case either side wishes to make another offer.

There was no further business, and the meeting was adjourned at 12:50 P.M.



Roberta H. Marshall, Secretary-Treasurer

Addendum to the minutes of October 4, 1991:

The Utilities Commissioners, Mr. Corkran, Mr. Wilson and Mrs. Marshall met informally at Mr. Spencer's place of business immediately after the meeting with Delmarva to discuss the progress in the negotiations.

It was decided that an attorney might possibly be needed if the negotiations go to arbitration. Mr. Wilson will arrange for the Commissioners to meet with Attorney Wallace Duncan to discuss the matter over dinner on October 15.

It was agreed that Mr. Wilson should be given flexibility in his discussions with Mr. Jones on October 8.

There was no further business, and the discussion was ended at 1:30 P.M.

Roberta H. Marshall

Roberta H. Marshall, Secretary-Treasurer



ST. MICHAELS UTILITY COMMISSION
MEETING
208 TALBOT
October 15, 1991

Present: Carroll Wills, Chairman
Harold Bassett, Asst. Chairman
Alex Spencer, Member
John W. Wilson, Guest
Wallace L. Duncan, Guest

Dinner commenced at approximately 7:00 PM.


During dinner the Commission discussed the feasibility of "Condemnation Proceedings" against Delmarva Power and Light (DP&L) in order to relieve the town of this onerous lease.

There was a general discussion regarding the recent negotiations with Delmarva. Mr. Wilson advised that he had been in contact with Mr. Jones and had received a list of six or seven names as possible candidates for arbitration. Mr. Wills advised that he had been contacted by Mr. Wood to arrange the meeting with DP&L regarding the capital asset ledgers. Mr. Wills advised that he would be going to Wilmington on Thursday, October 18th, for that purpose.

Mr. Wills distributed to each member present a copy of DP&L "Operations Review" and a letter from Mr. Peter Clark. Both were received on October 15, 1991.

Mr. Bassett discussed the possible engagement of the firm of Duncan, Weinberg, Miller and Pembroke, P.C. with Mr. Wallace Duncan. It was agreed that Mr. Duncan would submit a proposal, in writing, of the probable costs of engaging his firm. Mr. Duncan advised that he would include references and a proposal that would include a "cap".

The meeting adjourned at approximately 10:00 P.M.


Carroll J. Wills
Acting Secretary

DR. MICHAEL, BUT THE OCCASION

MEETING

208 TOWN

October 15, 1951

Present: Carol Wills, Chairman
Harold Bassett, Asst. Chairman
Miss Spencer, Secretary
John W. Wilson, Guest
Wallace L. Duncan, Guest

Meeting commenced at approximately 7:00 P.M.

Dr. Wilson advised the Commission discussed the feasibility
of continuation proceedings against Delmarva Power and
Light (DPL) in order to relieve the town of this onerous
burden.

There was a general discussion regarding the recent
negotiations with Delmarva. Mr. Wilson advised that he had
been in contact with Mr. Jones and had received a list of
six or seven names as possible candidates for acquisition.
Mr. Wills advised that he had been contacted by Mr. Wood in
regards to the meeting with DPL regarding the capital stock
offer. Mr. Wills advised that he would be sending the
minutes on Thursday, October 18th, for that purpose.

Mr. Wills distributed to each member present a copy of
the "Operations Review" and a letter from Mr. Peter Clark.
Both were received on October 12, 1951.

Mr. Bassett discussed the possible enactment of the
Town of Duncan, Miller and Pennington, P. C. W. W. W.
Wallace Duncan. It was noted that Mr. Duncan would submit
a proposal in writing of the possible course of acquisition.
His list Mr. Duncan advised that he would include
references and a proposal that would include a

The meeting adjourned at approximately 10:00 P.M.

Carol Wills
Chairman

OCTOBER 24, 1991

A meeting of the St. Michaels Utilities Commission was held at 9:30 A. M. on Friday, October 24, 1991, in the Town Office Meeting Room. Harold Bassett, Alex Spencer and Roberta Marshall attended the meeting.

In the absence of Mr. Wills, the meeting was called to order by Mr. Bassett.

The purpose of the meeting was to discuss several items of business that had come up since the meeting of October 15, 1991.

Mr. Bassett distributed copies of a proposal from attorney Wallace Duncan, which included a cap of \$15,000 to take the negotiations through arbitration. Mr. Spencer stated that although David Mann would not serve as arbitrator in the negotiations, he has offered to do the legal work for the Utilities at no cost except his expenses, and added that he feared that Mr. Duncan and Mr. Wilson might push the negotiations to arbitration unnecessarily. Mr. Spencer and Mr. Bassett both expressed the hope that Delmarva will agree to settle on a reasonable amount without going to arbitration. After further discussion, it was agreed that Mr. Duncan's proposal will be thoroughly reviewed and evaluated before a decision is made.

Mr. Bassett then reported on a lengthy telephone conversation he had with Peter Clark and George Vapaa from Delmarva on October 23, 1991. He stated that they reiterated Delmarva's difference over the question of the lease of the franchise versus the facilities, and they spoke of the net profitability of the lease. Mr. Clark and Mr. Vapaa stated that they would be willing to consider customer growth, but not franchise growth, in the negotiations. Mr. Bassett requested that they also address the rate of inflation, but could get no direct answer. After other general comments about the system and the lease, they stated that Delmarva is willing to pay half the cost of the fee for the list of arbitrators. Mr. Bassett offered to meet with Delmarva once more in early November before going to arbitration, provided that Delmarva is willing to make a serious effort to discuss an increase in the rent. Mr. Clark will speak to Ken Jones and let Mr. Bassett know as soon as possible.

It was decided that the \$250 check to cover half the cost of the list of American Arbitration Association arbitrators will be sent to Delmarva immediately.

Mr. Bassett will alert John Wilson about the possibility of another meeting with Delmarva in early November.

Mr. Bassett has talked to Carroll Wills in California. Although Mr. Wills has said that personal reasons will prevent

him from serving as a Commissioner, he has agreed to serve as an adviser to the Board. Mr. Spencer and Mr. Bassett both expressed the hope that he will reconsider his resignation.

There was discussion about the fact that the Utilities Commissioners are not covered by the Town's liability insurance. Mrs. Marshall informed the Commissioners that the Town Manager is looking into the matter and hopes to get them covered in the very near future.

There was discussion about the Utilities' present financial situation. Mrs. Marshall will transfer \$5,000 from the Certificate of Deposit to the checking account to meet the bills on hand. A projected budget will also be prepared to anticipate further costs.

There was no further business, and the meeting was adjourned at 10:30 A.M.

Roberta H. Marshall

Roberta H. Marshall, Secretary-Treasurer

ST. MICHAELS UTILITIES COMMISSION

ANTICIPATED EXPENSES IF NEGOTIATIONS GO TO ARBITRATION

John W. Wilson, Economist		
Fees	\$13,362.25	
Expenses	<u>500.00</u>	
		\$13,862.25
Wallace Duncan, Attorney		
Fees	\$15,000.00	
Expenses	<u>1,000.00</u>	
		16,000.00
Arbitration Fees		<u>???</u>
<u>TOTAL, MINUS ARBITRATION FEES</u>		<u>\$29,862.25</u>

Note: Arbitration Fees have not been included, since they are an unknown amount at this point.

CASH ON HAND, NOVEMBER 1, 1991:

Checking Account	\$ 2,559.65	
Certificate of Deposit	<u>29,000.00</u>	
<u>TOTAL</u>		<u>\$31,559.65</u>



ST. MICHAELS UTILITIES COMMISSION

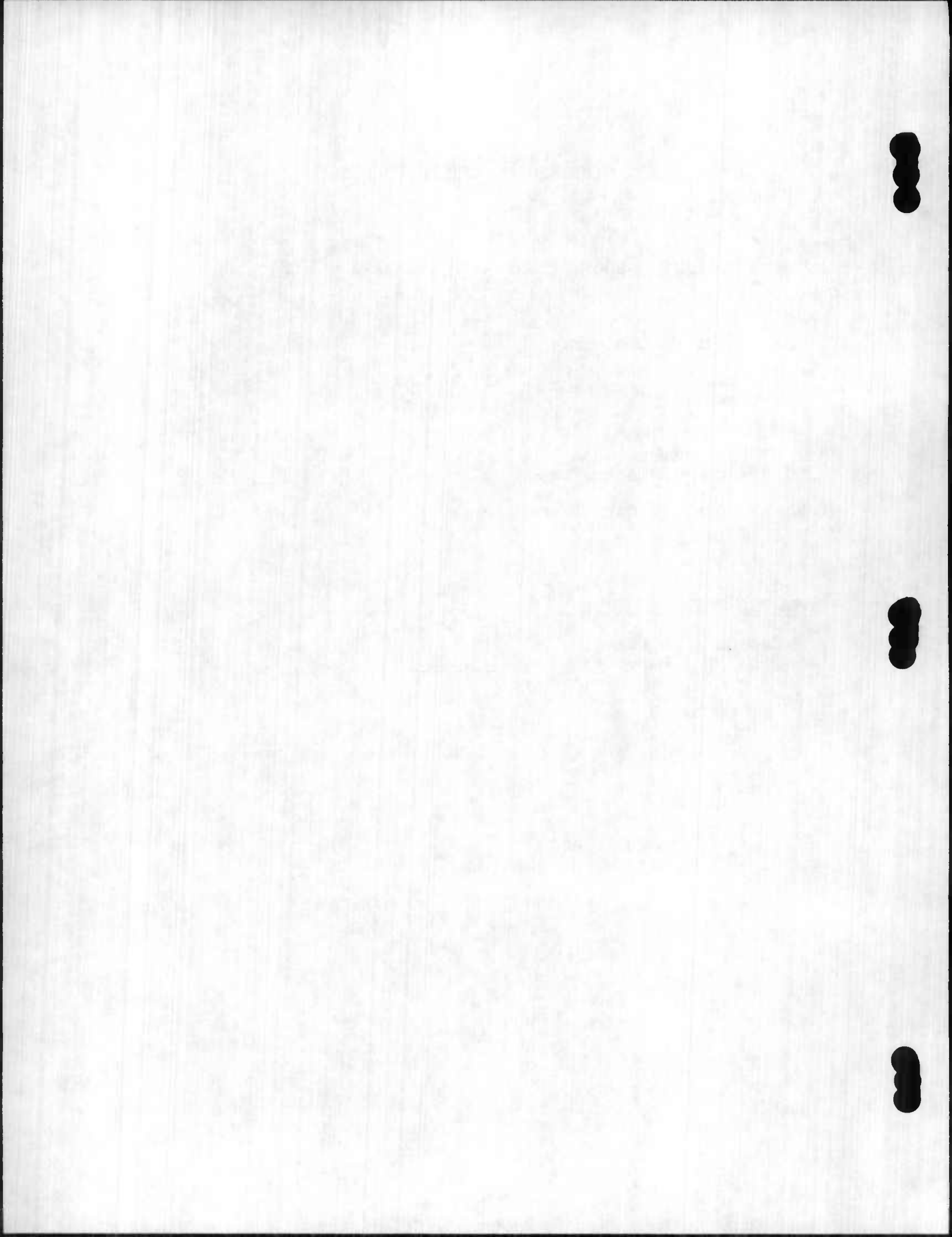
EXPENSES TO DATE, NEGOTIATIONS WITH DELMARVA

John W. Wilson, Economist:

Fees	\$16,362.50	
Expenses	<u>63.58</u>	
		\$16,426.08
List of Arbitrators, AAA		250.00
Utilities Commissioners Expenses		<u>266.97</u>
TOTAL EXPENSES TO DATE		\$16,943.05

PROJECTED TOTAL COST

Expenses to Date	\$16,943.05	
Projected Expenses	<u>29,862.25</u>	
TOTAL	\$46,805.30	




MAY 22, 1992

An informal meeting of the St. Michaels Utilities Commission was held in the Town Office Meeting Room at 10:30 A.M. on Friday, May 22, 1992. Members present were Harold Bassett, Alex Spencer and Roberta Marshall.

The Commissioners reviewed and amended a rough draft of a memo for the Town Commissioners regarding the St. Michaels/Delmarva lease negotiations. It is hoped that the memo will be helpful to the new Town Commissioners when they take office in June, as well as inform the present Commissioners of the latest developments in the negotiations. Before it is sent to the Commissioners, the memo will be sent to Attorney Duncan for his comments and/or changes. A copy of the estimated expenditures will also be provided to The Commissioners.

Mrs. Marshall reported that, due to Mr. Marshall's health problems, she has not taken the cruise given to her at her retirement. She was instructed to write herself a check for the amount that would have been spent, so that she can take the cruise at a later time.

There was no further business, and the meeting was adjourned at 11:30 A.M.



Roberta H. Marshall, Secretary-Treasurer



MEMO

TO: COMMISSIONERS OF ST. MICHAELS
FROM: ST. MICHAELS UTILITIES COMMISSION
DATE: JUNE 1, 1992

Purpose

To summarize events between October, 1991 and May, 1992 in the St. Michaels - Delmarva Power negotiations for the annual rental payment.

Background

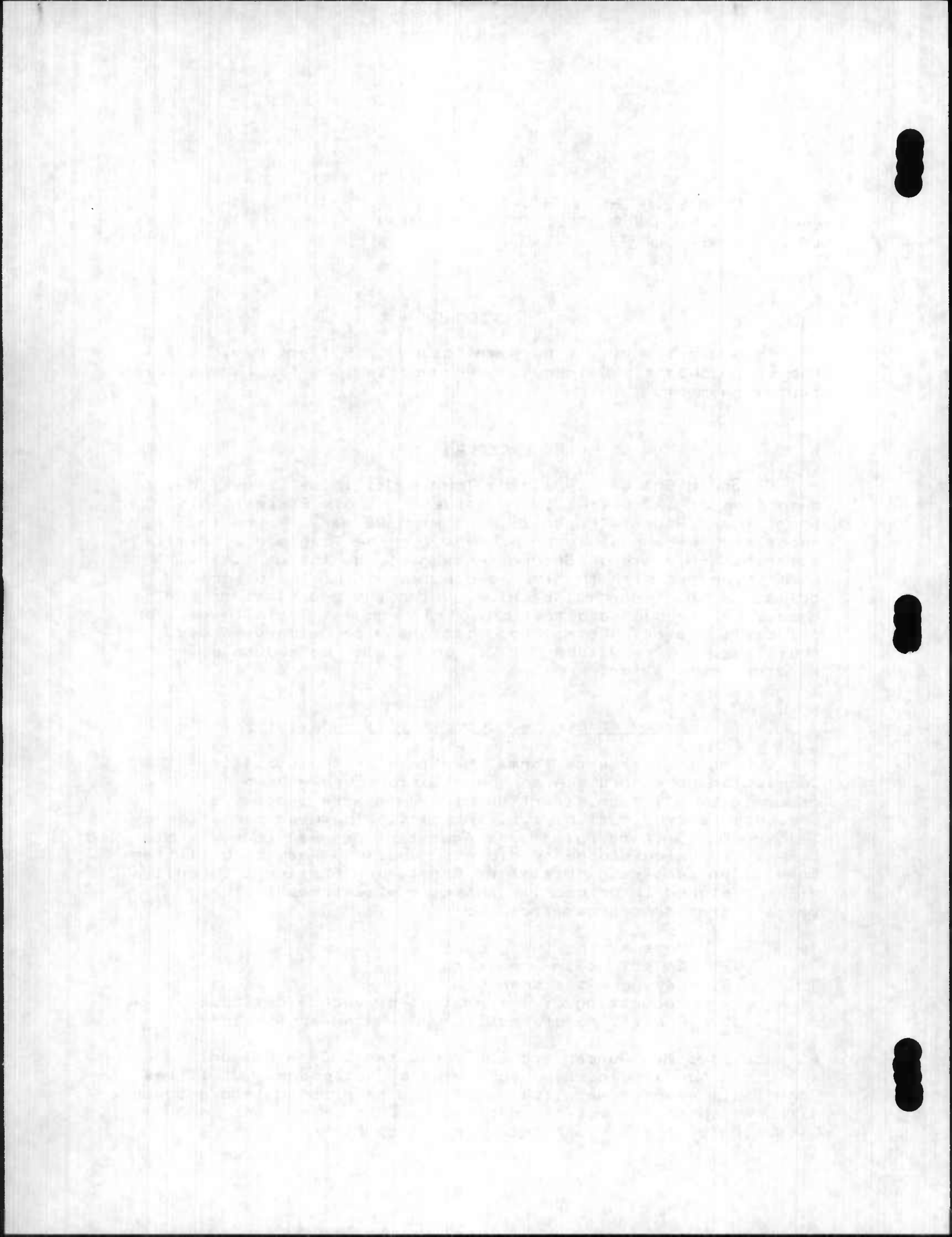
Prior to October 1991, the Town's Utilities Commission, comprised of Carroll Wills, President, Harold Bassett, Alex Spencer and Roberta Marshall, met with Delmarva Power to negotiate the annual lease payment for the Town's electrical distribution system. Before these meetings the Utilities Commission met with the Town's elected officials to secure political and financial backing during the negotiations and, if necessary, through arbitration. This request met with the Town officials' favor. Formal negotiations with Delmarva proved fruitless, and in October, 1991, both sides agreed to go to binding arbitration.

Summary of Events, October 1991 - May, 1992

During this time no formal meetings of the Utilities Commission were held. After negotiations broke down, essentially all significant developments were procedural preludes to arbitration, i.e. interaction between our attorney, Wallace Duncan, and Delmarva's Assistant General Counsel Peter Clark. These developments did not require a vote by Utilities Commission members. (Utilities Commission President Carroll Wills resigned in October.) The main milestones in the pre-arbitration process included:

1. Determining the ground rules
2. Selecting an arbitrator
3. Laying out a schedule
4. Requesting of information by each side (discovery)
5. Pre-filing of testimony with the arbitrator

At each step Mr. Duncan and our consultant, John Wilson, solicited our guidance and agreement by telephone. Utilities Commission members were fully informed of problems and progress. All correspondence between parties came to us and was disseminated through our secretary, Mrs. Marshall.

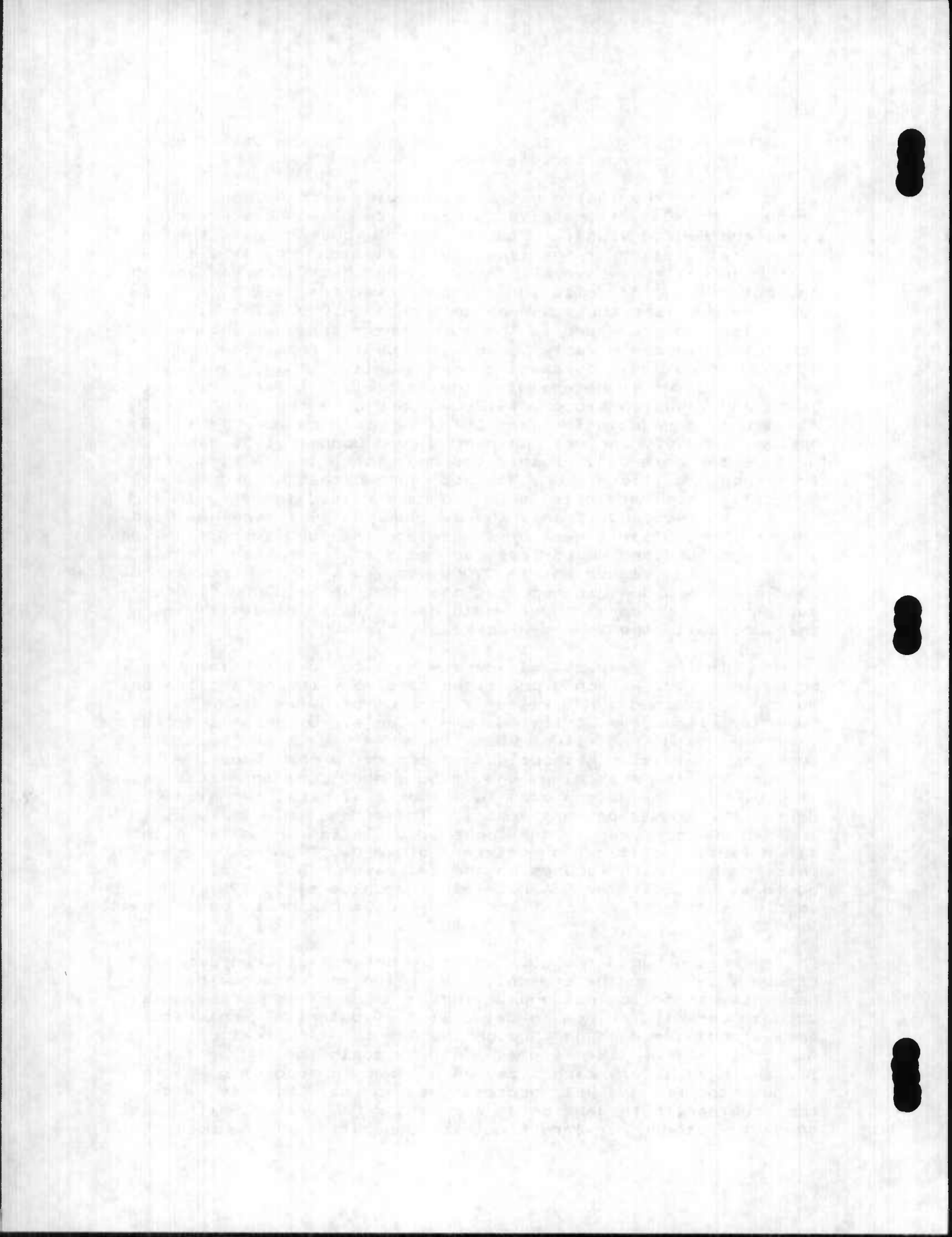


Other events that need to be made part of the Utilities Commission's records include the following.

After the last negotiation session with Delmarva in October, Mr. Bassett received a call from Delmarva's Kenneth Jones and George Vapaa, reiterating their objection to the Town's calculation of the impact of inflation from 1981 to 1991 on the annual rent payment. They stated that Delmarva figured the outer limit of inflation's impact over the last five years would have raised the lease payment to \$312,000. That is, inflation had increased to the point where the Town's annual payment could conceivably be adjusted upward from \$260,000 by \$52,000 to maintain purchasing power parity, if only inflation were considered in determining the payment. In fact, Messrs. Jones and Vapaa continued, \$312,000 should be the Town's basis for starting negotiations and Delmarva would counter that the present \$260,000 per year payment agreed upon in 1986 was perhaps too generous. Both sides could then try to negotiate from these positions. Mr. Bassett replied that he and Mr. Wills had estimated that inflation would have raised the annual payment to \$425,000 if only the period 1986-1991 were analyzed. However, Mr. Bassett went on to restate the Town's position that a prudent landlord would lease an asset at its current rental value and that figure was \$600,000 per year. Therefore, if the Commission would begin negotiations from the \$312,000 figure suggested by Delmarva there would be no basis for justifying this action to the Town's elected officials.

In this respect, please pay particular attention to our consultant, Mr. Wilson's pre-filed testimony to the arbitrator, which is attached. Mr. Wilson's conclusions were drawn separately from the Utilities Commission's. Of great interest is the finding that, if one uses Delmarva's data and service territory valuation methodology to determine the annual rental payment for the franchise, that figure should be in excess of \$1,000,000. Mr. Wilson uses two other analytical techniques to derive the annual payment amount. These result in (1) a minimum of \$595,000 per year if one looks at inflation and sales growth since 1981, and (2) an annual rent of \$840,000 based on a market value method which focuses on the increase in Delmarva's business value in the St. Michaels franchise since 1981. He concludes, therefore, that the annual payment should be at least \$600,000.

To enlarge upon the give and take between attorneys from October, 1991 and the present, the period was consumed by the necessity of following legal, binding, arbitration procedures such as deciding on how to get a list of potential arbitrators. Both sides agreed to go through the American Arbitration Association (AAA) for resumes of individuals for the initial list. In addition, each side was allowed to suggest names to augment the AAA's. This process took months. Finally, after the New Year, both parties agreed to ask Mr. Walter Smith, past head of Southern Maryland Electric Cooperative, if he would be



interested in arbitrating the dispute. A decision had to be made on what and how much information should be given to Mr. Smith when he was called to determine his interest. Primarily, again, this was a lawyer to lawyer give and take with phone calls to us for confirmation and for information.

We spent considerable time trying to get Delmarva to move faster. In this regard our attorney, Mr. Duncan, has a record of his calls to Delmarva to try to expedite matters. In addition, Mr. Bassett called Mr. Jones to ask that Delmarva return our attorney's calls so that we could set up an arbitration schedule. Finally, in March we agreed essentially to the current schedules and contacted Mr. Smith. He accepted and we set up an April meeting to determine the final schedule and his fees.

During this October to April period, Mr. Spencer received two personal phone calls from a Delmarva official who had not been a party to the negotiating sessions. On both occasions it was suggested that the Town should accept "\$300,000 and nickels and dimes" to get around arbitration. We declined both offers.

Discovery began in March, 1992, and is continuing. Pre-filed testimonies were sent to Mr. Smith by Ken Jones of Delmarva and John Wilson for the Town in late April. (These are attached.)

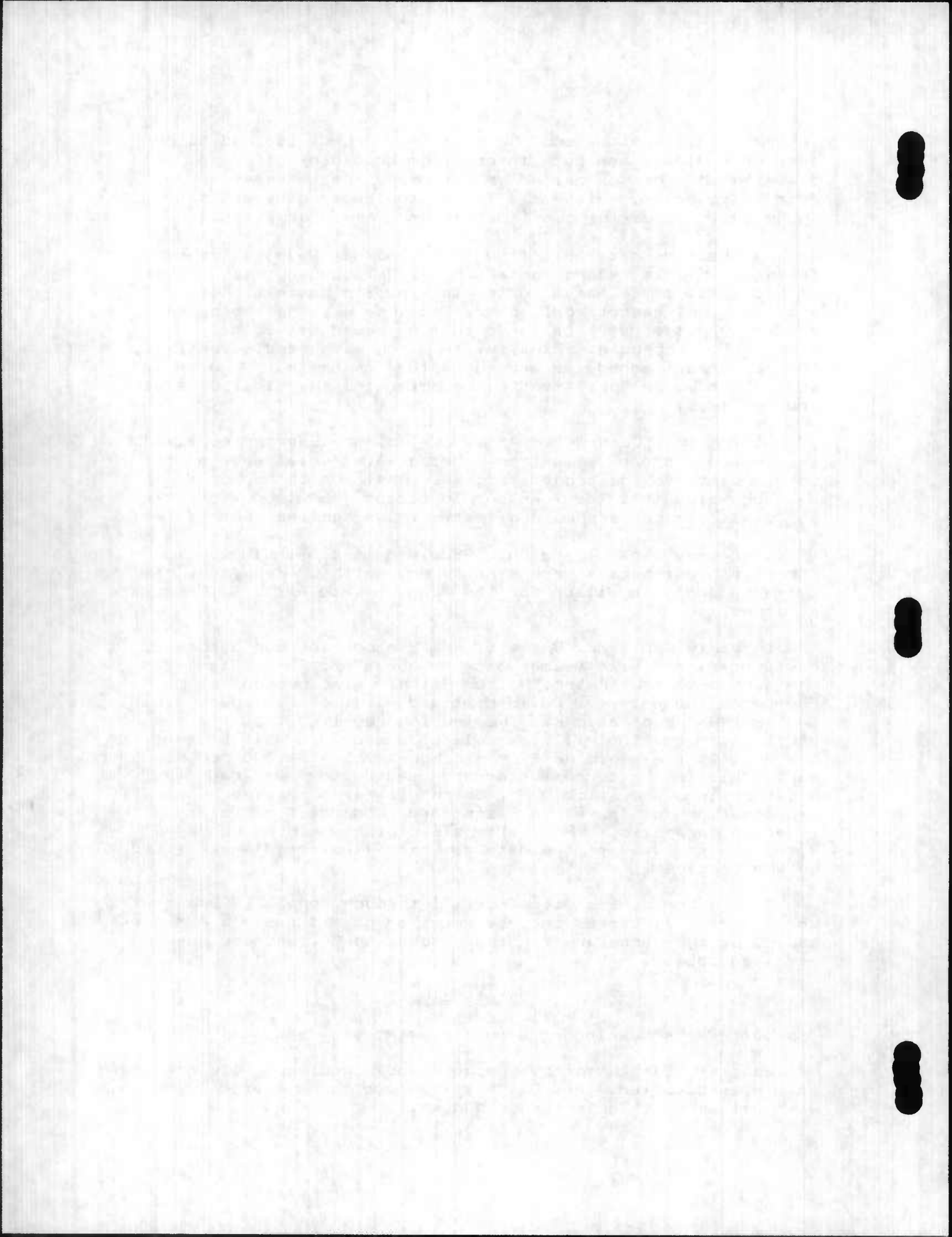
In early April Mr. Bassett, Mr. Spencer and our attorney, Mr. Duncan, met with Delmarva's Ken Jones and Peter Clark and the agreed-to arbitrator, Walter Smith. Also present at Mr. Spencer's request were David Mann and Bill Corkran, participants in the 1986 negotiations. The meeting resolved that (1) the arbitration hearing will take place June 2-June 4 in Easton, (2) Mr. Smith's fee would be \$100 per hour with a \$1,000 per day cap. This is the current standard used by the American Arbitration Association. Mr. Smith will also receive compensation for travel to Easton and lodging if necessary. (He lives in Annapolis.) Mr. Smith's decision would be rendered within thirty days of the date on which final briefs are filed by the parties.

During the period October, 1991 through April, 1992 and continuing, all correspondence received by Mr. Bassett has been copied by the secretary for the record and Mr. Spencer has received copies.

Outstanding

June 2 - 4 hearing on annual payment and retroactivity.

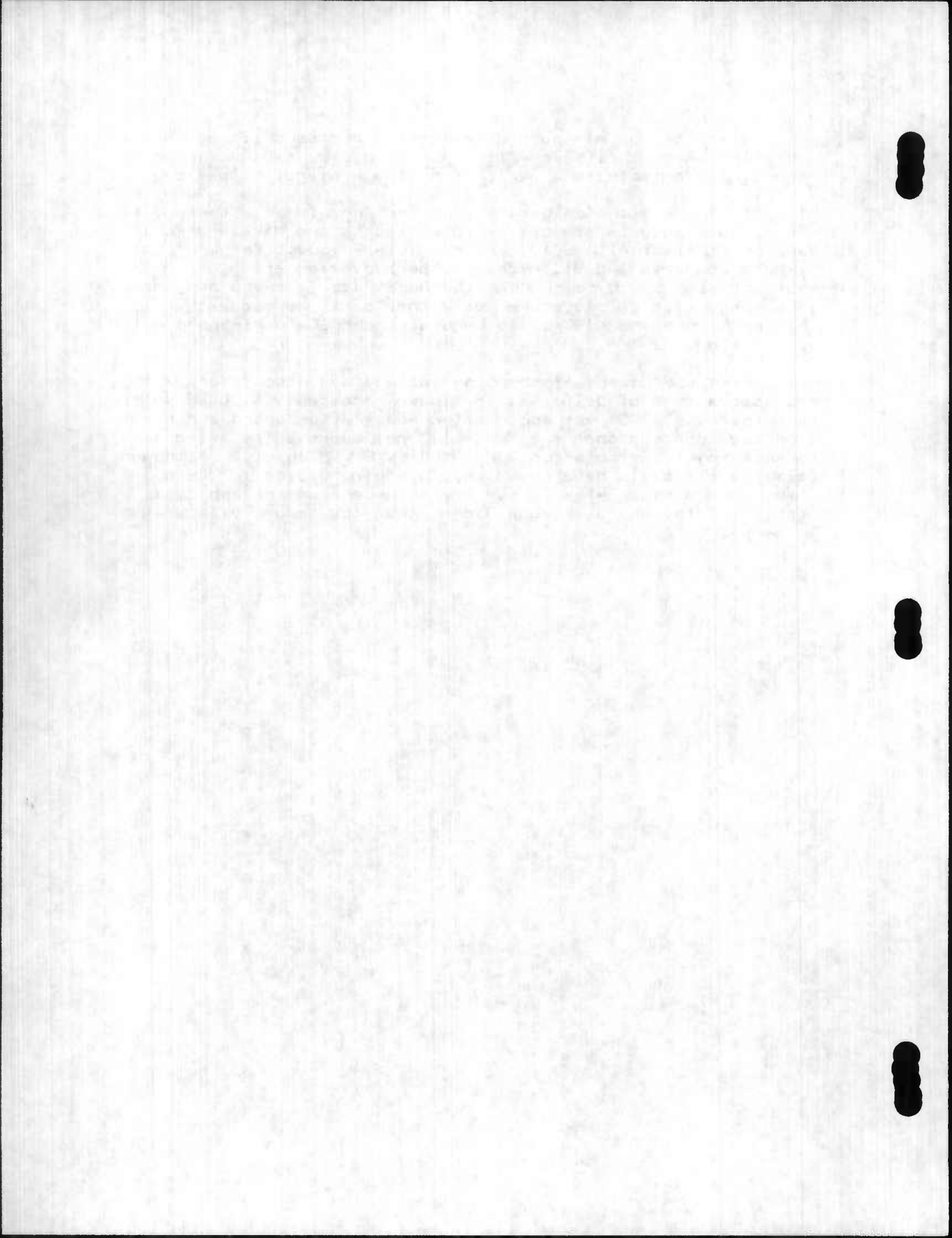
Budget: Both Attorney Duncan's and Consultant Wilson's fees have been budgeted. Mr. Smith's fees are to be shared 50/50 with Delmarva. (See attached budget.)



The arbitrator has agreed to issue a decision within thirty (30) days after briefs are filed at the close of the hearing record. We anticipate a decision by the Arbitrator in mid-July.

Once the Arbitrator establishes the Annual Rent, the revised Annual Rent adjustment must be submitted to the Maryland Public Service Commission (MPSC). Under a joint request for approval by both Delmarva and St. Michaels, both parties are contractually bound to support the Arbitrator's award and there is no provision or procedure for either party to request a hearing before the MPSC or to request the MPSC to disapprove the application.

During the course of the negotiations and discussions with representatives of Delmarva, they have repeatedly alluded to the fact that the MPSC must approve the Arbitration award and have expressed concern that the MPSC will not approve the award if it is anything like the amount demanded by St. Michaels. Although Delmarva officials have never said anything explicit, there is some concern that Delmarva may try to undermine the approval process if the award is much higher than the amount offered by Delmarva.



ST. MICHAELS UTILITIES COMMISSION
 COSTS OF ARBITRATION
 MAY 31, 1992

Amounts Paid to Date:

J. W. Wilson & Associates	\$30,000.00	
Duncan, Weinberg et al	3,756.40	
Arbitrators List	250.00	
Miscellaneous Expenses	<u>334.00</u>	
		\$34,340.40

Projected Additional Expense:

Duncan, Weinberg	\$11,243.60	
Arbitrator's Fees	7,500.00	
Other Arbitration Expense	<u>500.00</u>	
		19,243.60

Note: Both Mr. Duncan and Mr. Wilson have put a cap on their fees. Mr. Wilson's cap has been reached; Mr. Duncan's fees are capped at \$15,000.

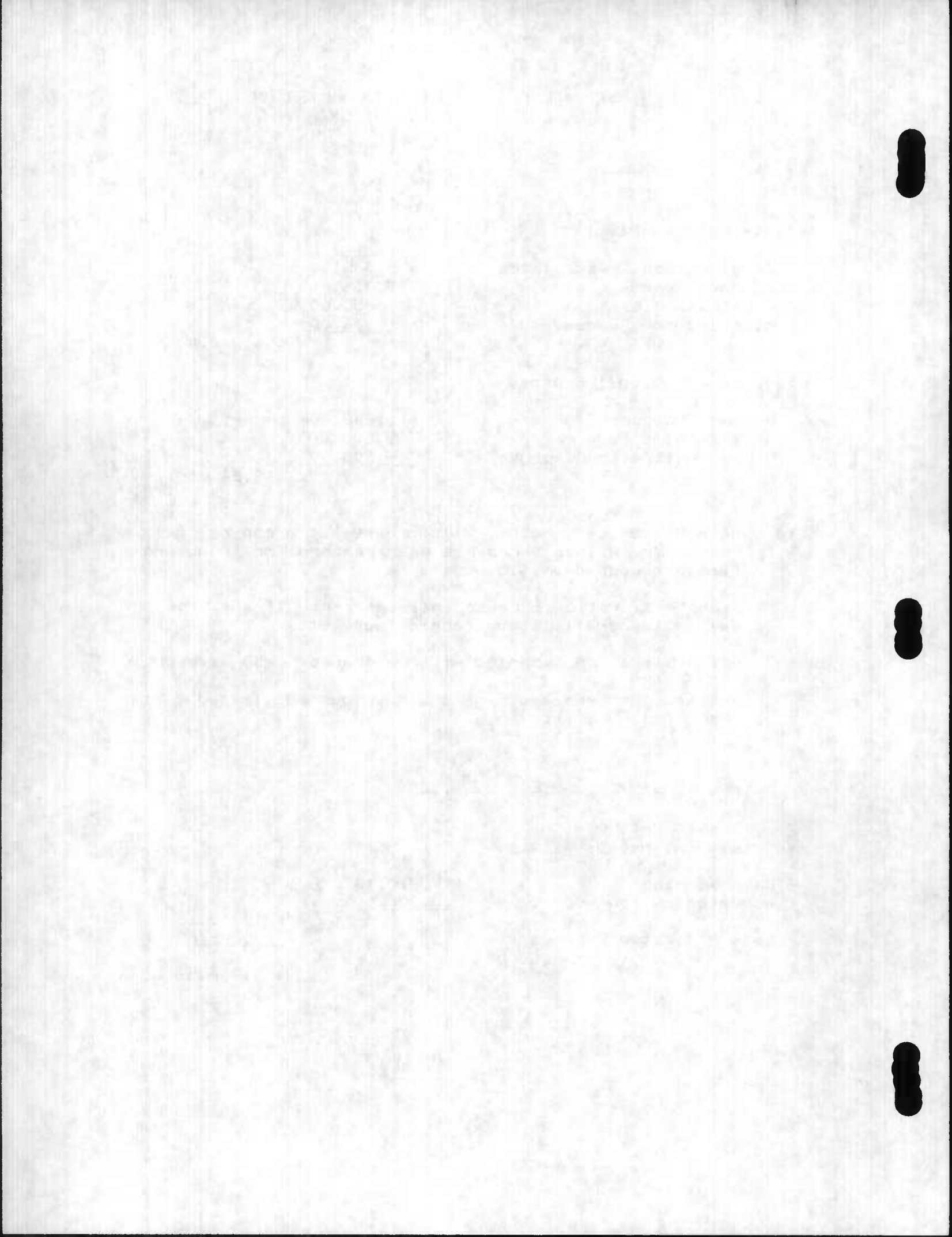
Other Arbitration Expense includes rent, if any, for the Easton Town Hall, stenographic fees, etc.

All Arbitration Expenses will be shared 50/50 with DPL.

Arbitration Fees and Expenses have been estimated to the best of our ability.

Cash Position, May 31, 1992:

Cash on Hand	\$14,210.13	
Budgeted by Town Comm.	<u>10,000.00</u>	
		\$24,210.13
Less Projected Expenses		<u>19,243.60</u>
		\$ 4,966.53



ST. MICHAELS UTILITIES COMMISSION
 COSTS OF ARBITRATION FOR 1991 LEASE RENEGOTIATIONS
 SEPTEMBER 2, 1992

Amounts Paid to Date:

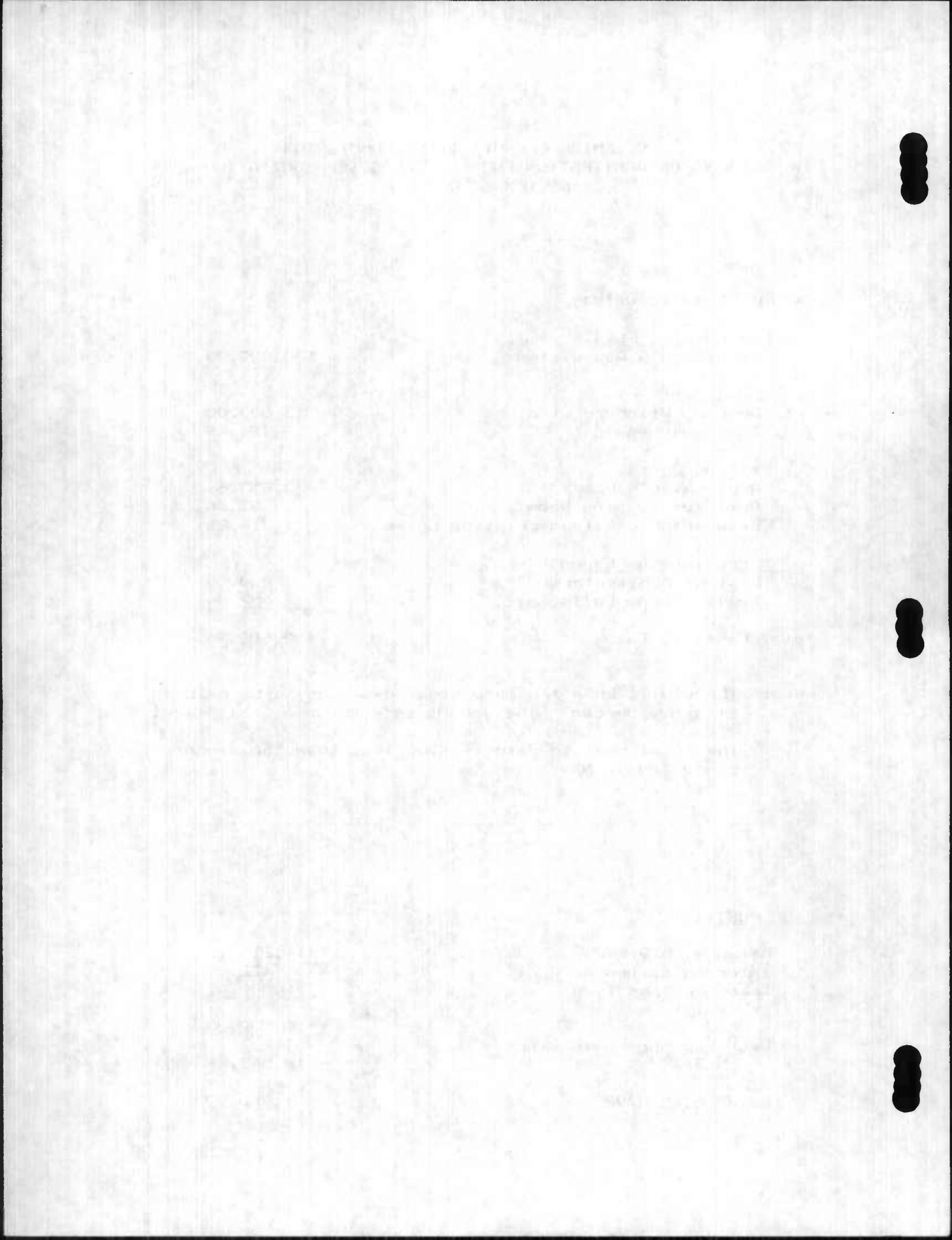
<u>Economist's Fees</u>	
J. Wilson & Associates	\$30,000.00
 <u>Legal Fees</u>	
Duncan, Weinberg et al	15,000.00
Expenses Repaid	2,134.49
 <u>Hearing Costs</u>	
Arbitrator's Fee	3,253.66
Rent for Hearing Room	75.00
Stenographic & Transcription Costs	1,718.25
 <u>Miscellaneous Expense</u>	
List of Arbitrators	250.00
Meals, Phone Calls, etc.	<u>452.34</u>
 Total Costs to Date	 \$52,883.74

Note: There will be a few more legal expenses to be paid to Attorney Duncan. The amount is unknown at this time.

The total cost to date is \$700 less than the amount projected in May.

CASH POSITION

Balance, 5/31/92	\$14,210.13
Interest Earned on Acct.	122.20
Transfer from Town	<u>6,000.00</u>
	\$20,332.33
Less expenses paid since 5/31/92	- <u>18,543.34</u>
Balance, 9/2/92	\$ 1,788.99



ST. MICHAELS UTILITIES COMMISSION
SUMMARY OF SINKING FUND
SEPTEMBER 2, 1992

Amount transferred to Mercantile Account, March, 91	\$1,305,911
Transfer after year ended June, 91	<u>226,247</u>
Total presently in Sinking Fund	\$1,532,158
Approximate transfer after June, 92 audit	<u>229,237</u>
Total available for investment after transfer	\$1,761,395

Computation of 1992 transfer:

Rents Received		\$260,000
Less Electric Bills	-	<u>41,035</u>
		\$218,965
Auditor's adjustments for interest:		
Due Sink. Fund, 91		15,461
Due Gen. Fund, 92	-	<u>5,189</u>
Approximate 1992 transfer		\$229,237





MERCANTILE-SAFE DEPOSIT & TRUST COMPANY

Baltimore, Maryland 21201
INVESTMENT ANALYSIS

ACCOUNT NO. PAGE NO.

6/30/92

54-DR

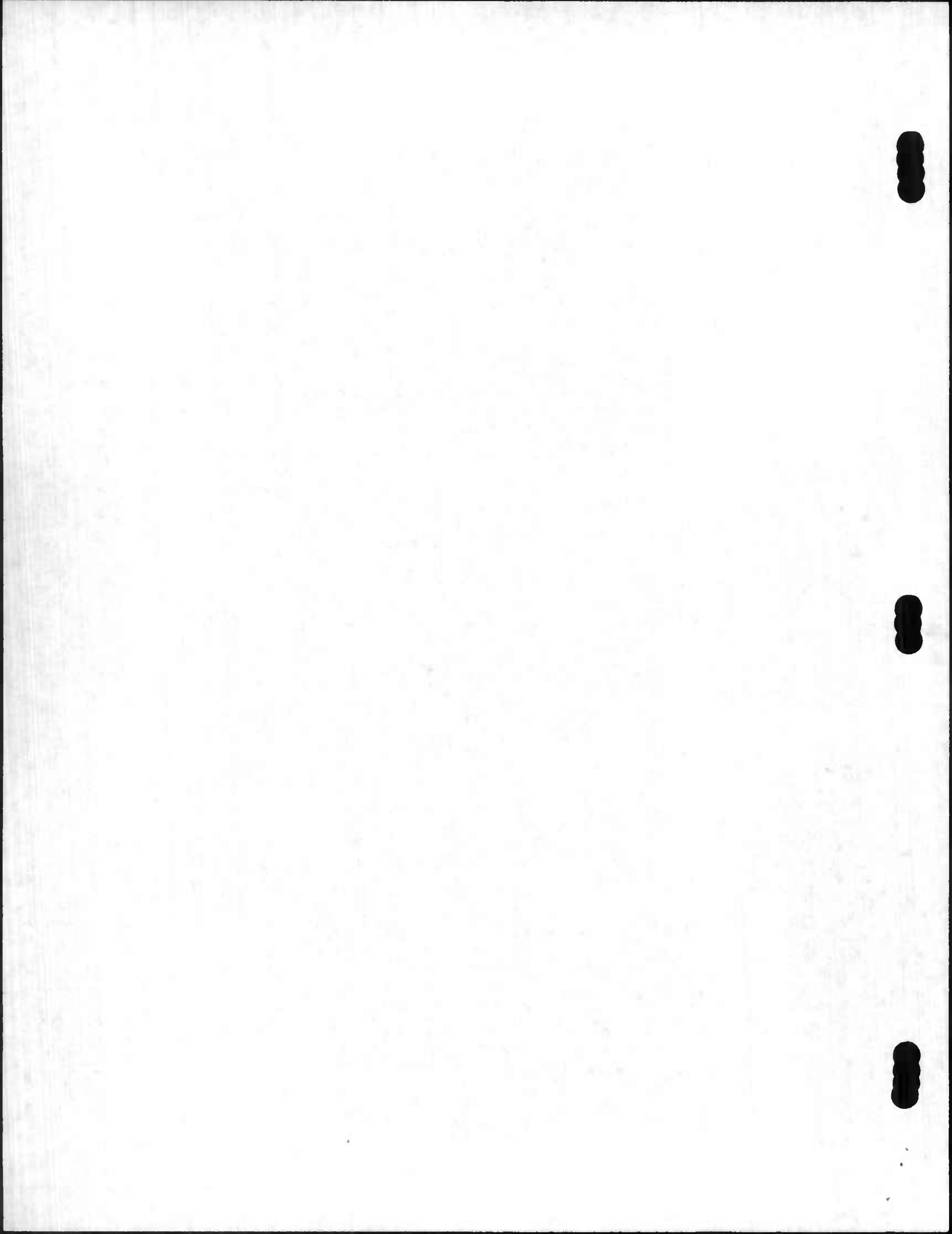
AS INVESTMENT ADVISOR FOR THE
STATE OF MARYLAND
LOCAL GOVERNMENT INVESTMENT POOL

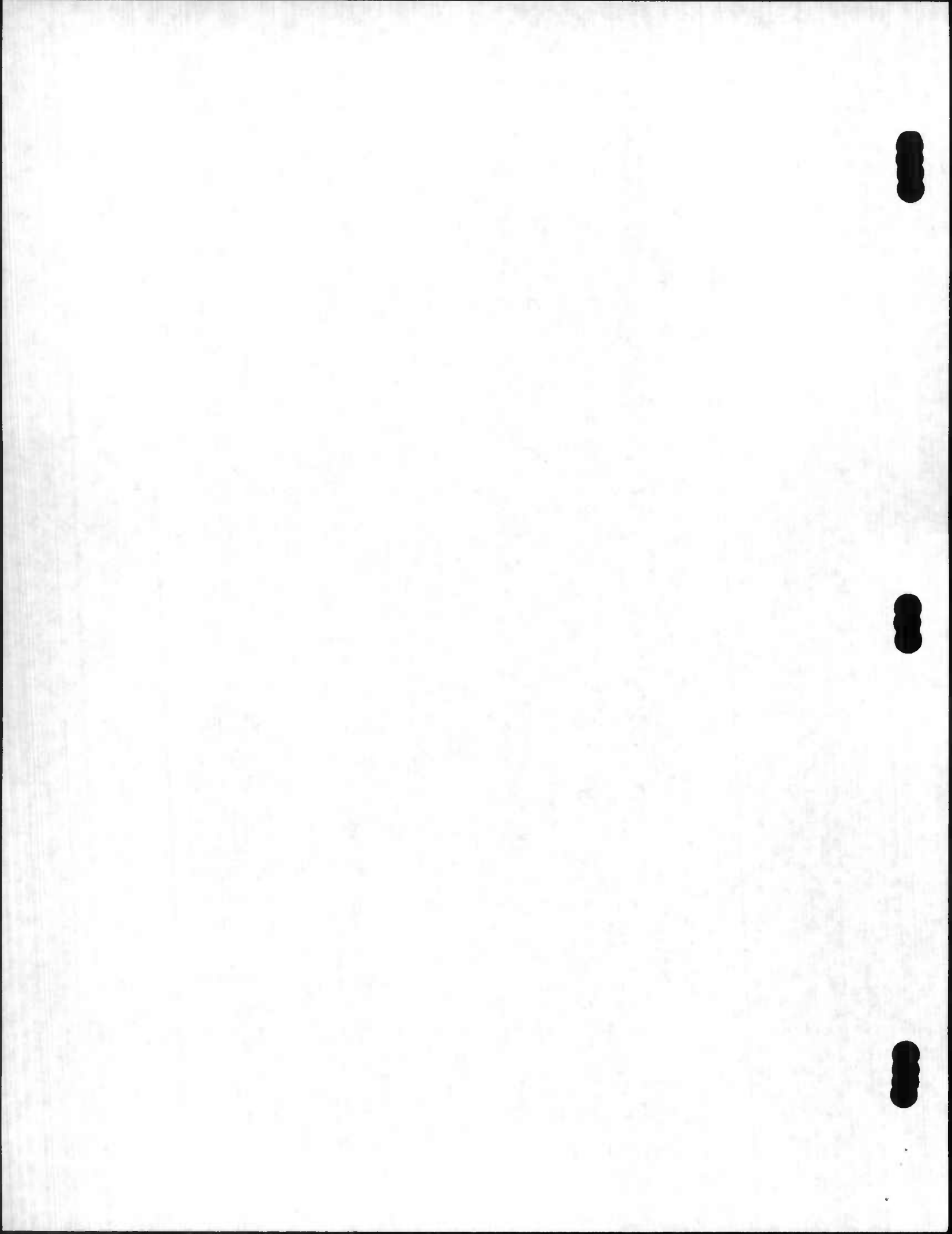
23419-0 1

TRUST DIVISION

FACE AMOUNT OR NUMBER OF SHARES	DESCRIPTION	INCOME DATA				MARKET DATA			COST DATA					
		DIVIDEND RATE	ESTIMATED ANNUAL INCOME	EST CURRENT YIELD	YIELD TO MATURITY	UNIT PRICE ROUNDED	ESTIMATED MARKET VALUE	PERCENT SEGMENT	MARKET TOTAL ACCOUNT	REG G	PPM L DSM G S	DATE ACQUIRED	UNITS	UNIT COST ROUNDED
	CASH-TEMPORARY INVESTMENTS													

	CASH					-268063	0							-268063
35000000	REPO MERRILL LYNCH 06/30/1992 03.800% 07/01/1992		1330000	380		35000000	138	138	32			35000000	1	35000000
22217000	REPO GOLDMAN SACHS 06/30/1992 03.750% 07/01/1992		833138	375		22217000	88	88	32			22217000	1	22217000
35000000	REPO KIDDER PEABODY 06/30/1992 03.850% 07/01/1992		1347500	385		35000000	139	139	32			35000000	1	35000000
35000000	REPO MORGAN STANLEY 06/30/1992 03.800% 07/01/1992		1330000	380		35000000	140	140	32			35000000	1	35000000
12000000	FEDERAL HOME LN BK CONS DISC NTS 07/07/1992		450000	378		11913750	47	47	18			12000000	1	11913750
2000000	NORTHERN TR CO DISC COMM PAPER 06/09/1992 03.800% 07/07/1992		76000	381		1994089	8	8	35			2000000	1	1994089
10000000	FEDERAL FARM CR BK CONS SYSTEMWIDE DISC NTS 07/15/1992		372500	376		9906875	39	39	18			10000000	1	9906875
1000000	MORGAN GNTY TR CO DISC BANKERS ACCEP 05/05/1992 03.800% 07/17/1992		38000	383		992294	4	4	35			1000000	1	992294
2000000	NORTHERN TR CO DISC BANKERS ACCEP 04/19/1992 03.850% 07/20/1992		77000	389		1980536	8	8	35			2000000	1	1980536
8000000	FEDERAL NATL MTG ASSN OISC NTS 07/20/1992		303200	383		7923358	32	32	18			8000000	1	7923358
5000000	REPUBLIC BK OF NEW YORK DISC BANKERS ACCEP 05/13/1992 03.710% 08/03/1992		185500	374		4957747	19	19	35			5000000	1	4957747
2129456	REPUBLIC BK OF NEW YORK DISC BANKERS ACCEP 05/14/1992 03.700% 08/03/1992		78790	373		2111947	9	9	35			2129456	1	2111947
4500000	WACHOVIA BK S C DISC BANKERS ACCEP 06/08/1992 03.780% 08/03/1992		170100	380		4473540	17	17	35			4500000	1	4473540
5000000	WACHOVIA GEORGIA DISC BANKERS ACCEP 06/19/1992 03.750% 08/03/1992		187500	377		4976563	20	20	35			5000000	1	4976563
6000000	WACHOVIA DISC BANKERS ACCEP 06/19/1992 03.750% 08/03/1992		225000	377		5971875	24	24	35			6000000	1	5971875



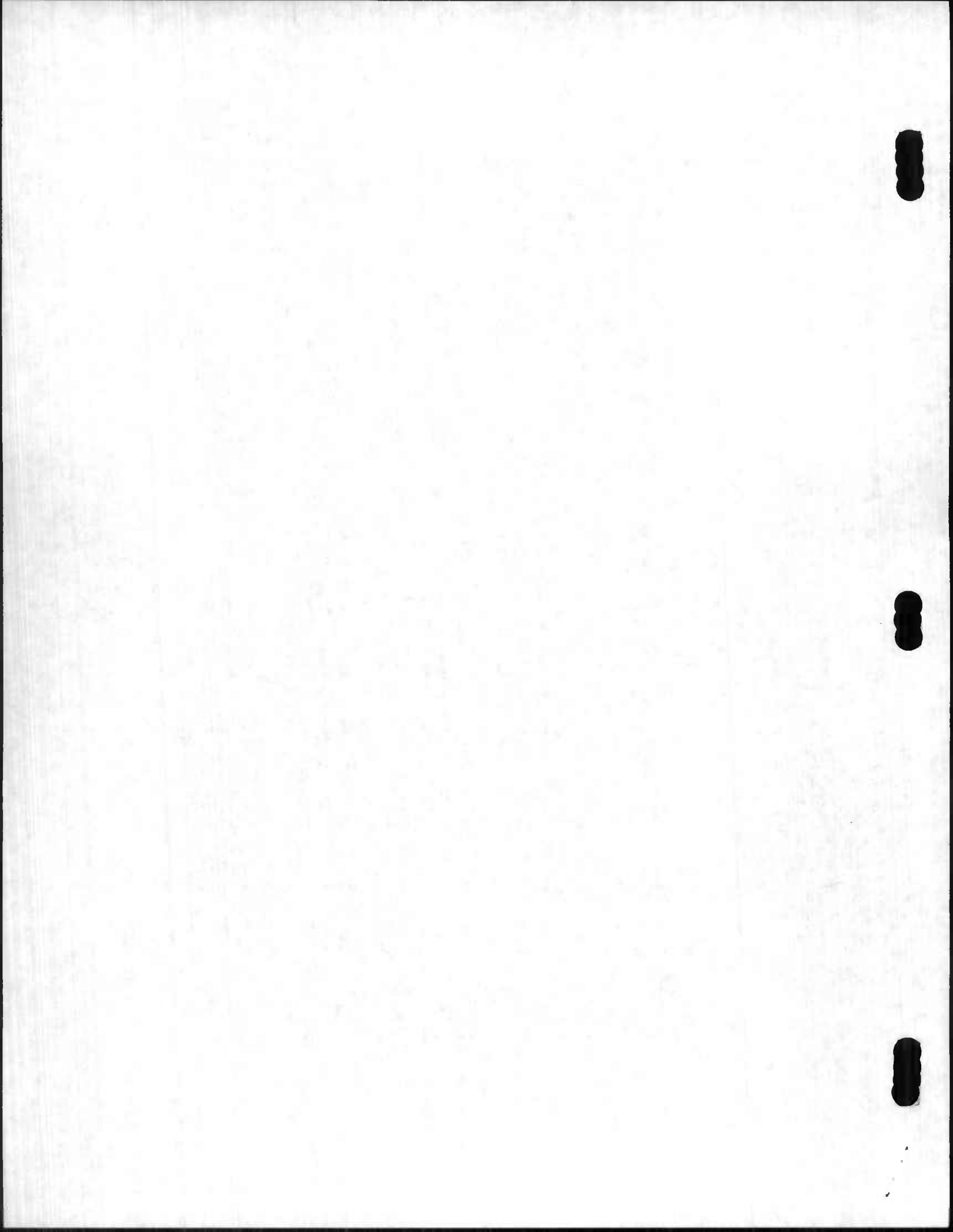


MARYLAND LOCAL GOVERNMENT INVESTMENT POOL
1992 DAILY RATES NET OF FEE (All Rates Are Rounded)

JAN	FEB	MAR	APR	MAY	JUN	JUL	AUG	SEP	OCT	NOV	DEC
-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----

1	4.69	4.10	3.97	4.08	3.82	3.84	3.77				
2	4.56	4.10	4.11	4.06	3.82	3.86	3.72				
3	4.55	3.99	4.03	4.06	3.82	3.85	3.72				
4	4.55	3.95	3.99	4.06	3.86	3.82	3.72				
5	4.55	4.02	3.95	4.06	3.85	3.78	3.72				
6	4.48	4.02	3.92	3.95	3.84	3.78	3.52				
7	4.34	3.95	3.92	3.95	3.78	3.78	3.47				
8	4.30	3.95	3.92	3.91	3.73	3.79	3.59				
9	4.37	3.95	3.95	3.93	3.73	3.77	3.50				
10	4.26	3.93	3.89	3.79	3.73	3.80	3.48				
11	4.26	3.94	3.87	3.79	3.84	3.81	3.48				
12	4.26	3.92	3.90	3.79	3.89	3.76	3.48				
13	4.23	3.93	3.87	3.82	3.83	3.76	3.48				
14	4.20	3.95	3.87	3.88	3.85	3.76	3.48				
15	4.23	3.95	3.87	4.05	3.90	3.81	3.49				
16	4.21	3.95	3.97	3.86	3.90	3.82	3.49				
17	4.14	3.95	4.03	3.86	3.90	3.75	3.47				
18	4.14	4.20	3.99	3.86	3.86	3.72	3.47				
19	4.14	4.47	3.99	3.86	3.86	3.70	3.47				
20	4.14	4.00	3.98	3.86	3.79	3.70	3.46				
21	4.07	3.96	3.98	3.91	3.84	3.70	3.45				
22	4.24	3.96	3.98	3.88	3.84	3.73	3.48				
23	4.12	3.96	3.99	3.83	3.84	3.78	3.46				
24	4.03	4.00	3.94	3.78	3.84	3.78	3.42				
25	4.03	3.98	3.93	3.78	3.84	3.76	3.42				
26	4.03	3.96	3.99	3.78	3.87	3.73	3.42				
27	4.07	3.95	3.95	3.83	3.99	3.73	3.46				
28	4.06	3.97	3.95	3.88	3.85	3.73	3.46				
29	4.02	3.97	3.95	3.87	3.78	3.76	3.44				
30	3.99		3.99	3.87	3.78	3.78	3.41				
31	4.10		4.00		3.78		3.41				

AVERAGE DAILY RATE	4.24	4.00	3.96	3.90	3.83	3.77	3.51	-----	-----	-----	-----
EFFECTIVE ANNUAL YIELD	4.32	4.07	4.03	3.97	3.90	3.84	3.57				
ACTUAL YIELD (Last 12 Months)	5.67	5.45	5.25	5.07	4.91	4.74	4.54				



SEPTEMBER 4, 1992


A meeting of the St. Michaels Utilities Commission was held on Friday, September 4, 1992 in the Town Office Meeting Room. Harold Bassett, Alex Spencer, Town Manager R. Andrew Hollis and Roberta H. Marshall were present. Jean Weisman joined the group during the executive session. The meeting was called to order by Mr. Bassett at 11:30 A.M.

The purpose of the meeting was to discuss the investment of the Sinking Fund. Pursuant to Section 10-508, part 5, of the Annotated Code of Maryland, a motion was made by Mr. Spencer to adjourn to executive session. The motion was seconded by Mr. Bassett, thus making it unanimous, and Mr. Bassett adjourned to executive session.

During the session, the Commissioners reviewed information on the amount in the sinking fund, and its present investment. Mr. Bassett will put together a draft of possible avenues of investment for the group's review at the next meeting in October. It is hoped that the Utilities can meet with the Town Commissioners soon afterward with their recommendations. The executive session was adjourned at 12:45 P.M.

The Commissioners noted that there has been no word from Delmarva regarding the filing for PSC approval of the rent increase.

There was no further business, and the meeting was adjourned at 12:50 P.M.


Roberta H. Marshall, Secretary-Treasurer

OCTOBER ~~21~~²¹, 1992
21

A meeting of the St. Michaels Utilities Commission was held on Wednesday, October ~~20~~, 1992. All members were present: Harold Bassett, Alex Spencer and Roberta Marshall. Town Clerk/Manager Andrew Hollis and Assistant Town Clerk Jean Weisman were also in attendance.

The meeting was called to order by Mr. Bassett at 10:40 A.M.

Mr. Spencer announced that he has been contacted by Larry Wood regarding a date for the annual meeting with Delmarva. November 19 was selected as the tentative date.

The minutes of the last meeting were approved as written and circulated.

The purpose of the meeting was to finalize the recommendations to be made to the Town Commissioners for investment of the Sinking Fund. Pursuant to Section 10-508, part 5, of the Annotated Code of Maryland, a motion was made by Mr. Spencer to adjourn to executive session. The motion was seconded by Mr. Bassett, thus making it unanimous, and the meeting was then adjourned to executive session.

Mr. Bassett devoted the first part of the session to an explanation of the scenarios used in the various investment possibilities present. He informed the group that he had received assistance from Ken Fischbach, of Maryland National Bank, in developing the scenarios. He added that Mr. Fischbach has volunteered to attend the meeting with the Town Commissioners if that is desirable. Mr. Spencer and Mr. Bassett agreed that Mr. Fischbach could possibly be of help at the meeting, and Mr. Bassett will contact him to request that he attend. Possible dates for the meeting with the Commissioners were discussed with Mr. Hollis, and a date and time will be chosen which is most convenient to all.

The Utilities Commissioners then reviewed and amended the memo regarding the investment of the Sinking Fund, which will be submitted to the Town Commissioners in advance of the meeting. It was stressed that the Sinking Fund must be a sizeable amount by the end of the lease period in 2006, or the Town will have no leverage at all in the negotiations that will occur then.

There was no further business, and the meeting was adjourned at 11:55 A.M.



Roberta H. Marshall, Secretary-Treasurer

TO: COMMISSIONERS OF ST. MICHAELS
FROM: ST. MICHAELS UTILITIES COMMISSION

SUBJECT: INVESTMENT OF SINKING FUND AND ANNUAL LEASE PAYMENT

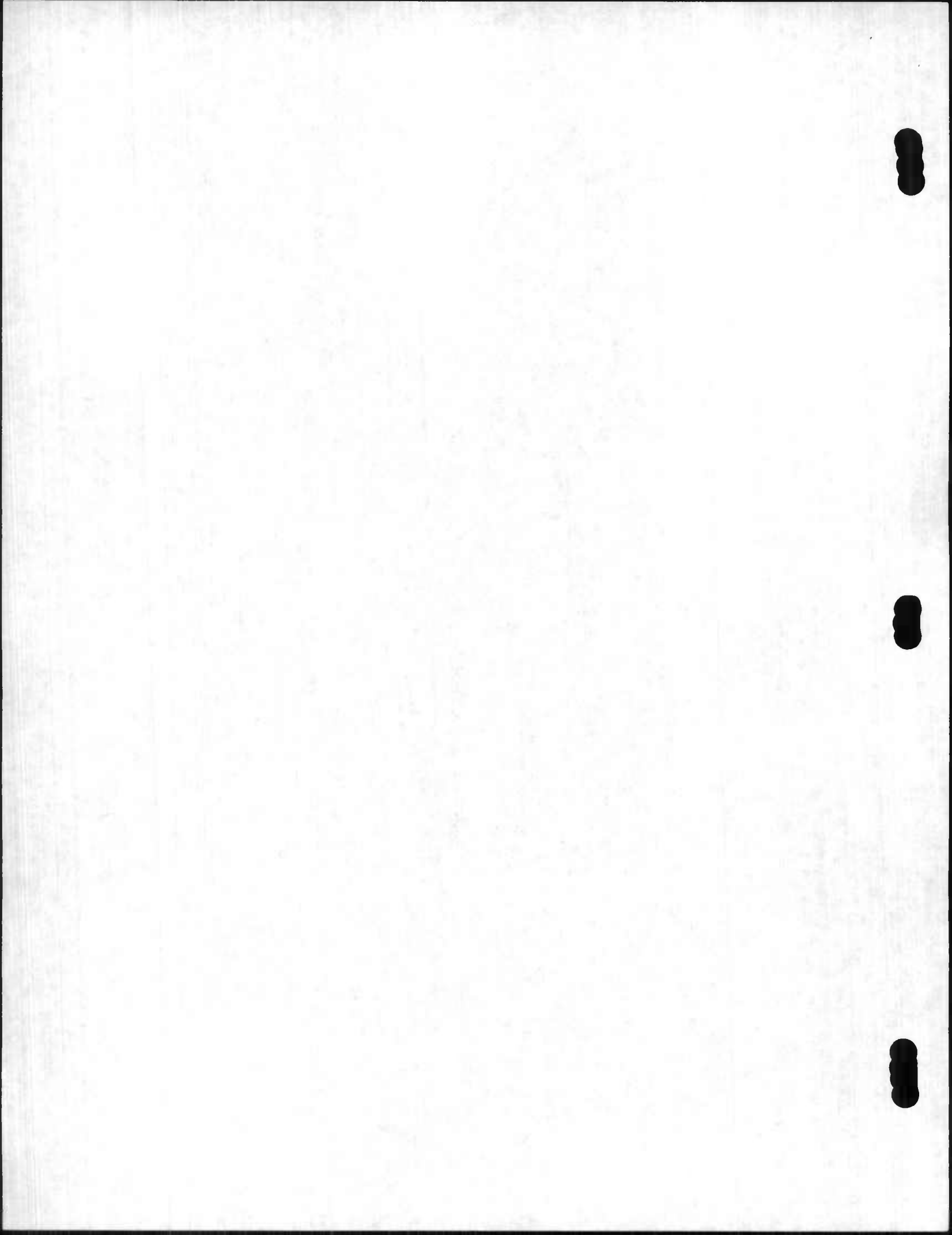
GOAL: To maximize income to achieve actuarial soundness of St. Michaels' Sinking Fund by 2006.

BACKGROUND: The Utilities Commission believes that:

1. Over the past year the Utilities Commission invited an insurance company, a brokerage house, a bank, and a trust company to propose strategies that would enable the Town to maximize its earnings toward this goal. Our approach is based on what we believe to be the best of each proposal.
2. When the existing lease expires in 2006, St. Michaels should be in a strong bargaining position either to renegotiate with Delmarva or with others for our electric service. Therefore, the Town should be prepared to pay Delmarva for certain -- not all -- improvements made during the life of the lease.
3. Prior to 2006, if St. Michaels continues to receive less than fair market value in the lease payments from Delmarva, the Town may wish to consider the pros and cons of condemning the lease.
4. In any event, the soundness of the Sinking Fund is a necessary goal.

ASSUMPTIONS: To maximize income by 2006, eight financial scenarios were analyzed with the following general assumptions and variations:

1. That the sinking fund investment could cover the Town's estimated annual needs, which traditionally come from this source -- or conversely, that the Town's projected budget augmentation could come from the annual lease payments. (Rather than make a lump sum payment to the fund once each year, the accrued interest would be calculated and deducted from the monthly rent payments.)
2. That the arbitrated \$310,000 per year payment will be accepted by the Maryland Public Service Commission and (a) will remain constant until the lease expires or (b) will increase \$50,000 per year in 1997 and another \$50,000 per year in 2002.
3. That the Town's requirements currently budgeted at \$100,000 per year will grow at a rate of 5% per year compounded annually.



4. That interest rates will be (a) relatively static or (b) will gradually increase over the remaining life of the lease.

DISCUSSION: The Maryland Code allows municipalities to invest only in U.S. Government backed or insured obligations. Consequently, four types of potential income earning assets were analyzed: GNMA's, Zeros, Coupons and CDs. In each of the eight scenarios analyzed there was a mix of at least three of these instruments.

Recommendations should be made under conservative assumptions, i.e. -- static interest rates; no increase in the lease payment; the Town's budget requirements can be met from the annual Delmarva payment with the balance available for investment; and any excess balances earn 4% per year.

RESULTS: The Town maximizes the growth of the Sinking Fund by investing in Zeros through 2001 and Treasury Coupons thereafter to earn:

1. \$9.5 million by 2006 if \$310,000 per year lease payment remains constant; Town's needs are accurately projected; and interest rates remain essentially static.

2. \$10.5 million by 2006 if \$310,000 per year lease payment increases by \$50,000 for 1997 - 2002 and another \$50,000 for 2002 - 2007; the Town's needs are accurately projected; and interest rates increase modestly.

3. Under the least attractive of the eight scenarios analyzed, the Town could expect the minimum value of the Sinking Fund to be almost \$9 million by 2006. Printouts on each scenario are attached.

RECOMMENDATIONS:

1. Invest the entire sinking fund in Zeros at today's rates. This guarantees immediately more than \$5 million in future value by 2006.

2. Cover Town's needs from annual lease payment.

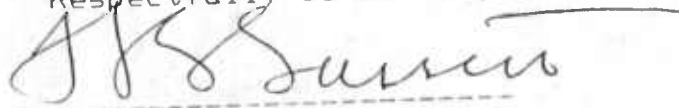
3. Invest the balance -- annual lease payment minus Town's expenses in Zeros through 2001 and Coupons thereafter to yield \$4.5 million by 2006.

4. Invest any excess balances in CDs or T-Bills for a minimum total of \$9.5 million by 2006.

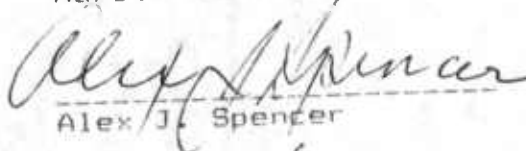
5. Invest on a transaction basis, not hiring a money manager, to minimize expenses. On a transactions-only basis, financial institutions may be canvassed to find the lowest rate per investment; whereas a money manager will charge monthly fees irrespective of whether there is a transaction or not.
6. Set aside income and conduct a study to analyze the pros and cons of condemning the current lease with Delmarva.
7. Accept the goal of maximizing the actuarial soundness of the Sinking Fund by 2006.
8. Consider amending the Town Charter to ensure that future elected officials continue to work toward the goal.

IN CONCLUSION: The Utilities Commission wishes to thank the Town's elected officials for their unstinting support, especially over the past year in the ups and downs of the arbitration process. We regret that the arbitrator decided to solve a problem that he was not paid to do -- that is, to decide what the Maryland PSC would accept rather than the fair market value lease payment for the St. Michaels franchise, based on the facts he agreed with in his report. None the less, the Town will realize at least a \$750,000 increase on top of the \$3.9 million base payment over the 1991 - 2006 period if the PSC approves the arbitrated \$310,000 per year..

Respectfully submitted,



Harold Bassett

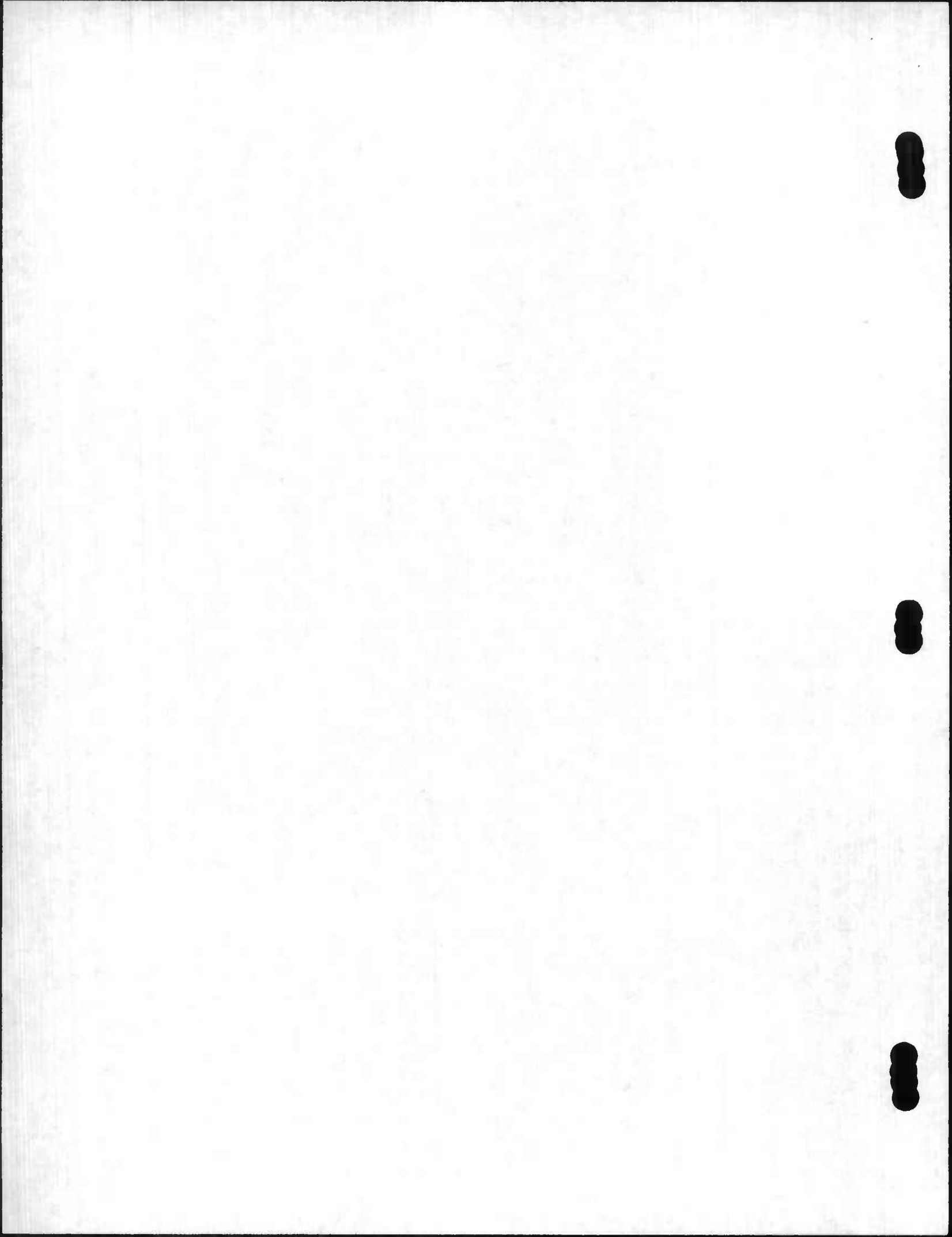


Alex J. Spencer



Roberta H. Marshall

DATE: 10/23/92-----



St. Michaels
Case A
Scenario #1

Current Sinking Fund Balance \$1,760,000
 Initial Transaction
 GNMA Purchase 15 yr @ 6.50% \$1,500,000
 Zero Coupon Purchase \$260,000

Year	REVENUE INVESTED IN:		RATE Treasury Percentage	CASH FLOW		Annual Expenses	Excess Balance	Future Value
	U.S. Zero Bond	Treasury Note		Treasury Note	GNMA			
INITIAL PURCHASE	\$260,000		7.00%	\$0				\$690,788
1992	\$310,000		7.00%	\$0	\$156,000	\$100,000	\$56,000	\$823,632
1993	\$310,000		7.00%	\$0	\$156,000	\$105,000	\$111,280	\$768,106
1994	\$310,000		7.00%	\$0	\$156,000	\$110,250	\$163,311	\$716,323
1995	\$310,000		7.00%	\$0	\$156,000	\$115,763	\$211,691	\$668,031
1996	\$310,000		7.00%	\$0	\$156,000	\$121,551	\$255,986	\$622,995
1997	\$310,000		6.50%	\$0	\$156,000	\$127,628	\$295,732	\$555,569
1998	\$310,000		6.50%	\$0	\$156,000	\$134,010	\$330,431	\$520,697
1999	\$310,000		6.50%	\$0	\$156,000	\$140,710	\$359,550	\$488,014
2000	\$310,000		6.50%	\$0	\$156,000	\$147,746	\$382,517	\$457,382
2001	\$310,000		6.50%	\$0	\$156,000	\$155,133	\$398,719	\$428,677
2002		\$310,000	6.00%	\$18,600	\$156,000	\$162,889	\$426,847	\$310,000
2003		\$310,000	6.00%	\$37,200	\$156,000	\$171,034	\$466,973	\$310,000
2004		\$310,000	6.00%	\$55,800	\$156,000	\$179,586	\$519,155	\$310,000
2005		\$310,000	6.00%	\$74,400	\$156,000	\$188,565	\$583,430	\$310,000
2006		\$310,000	6.00%	\$93,000	\$156,000	\$197,993	\$659,814	\$310,000
TOTAL:							\$659,814	\$8,290,214
COMBINED TOTAL:								\$8,950,028

Assumptions:

Annual expenses:	\$100,000 increasing 5% per year.
Income:	\$310,000 remaining constant.
Projected 15 yr Value.	\$8,950,028
Excess Balance:	Earns a rate of 4%.



St. Michaels
Case A
Scenario #2

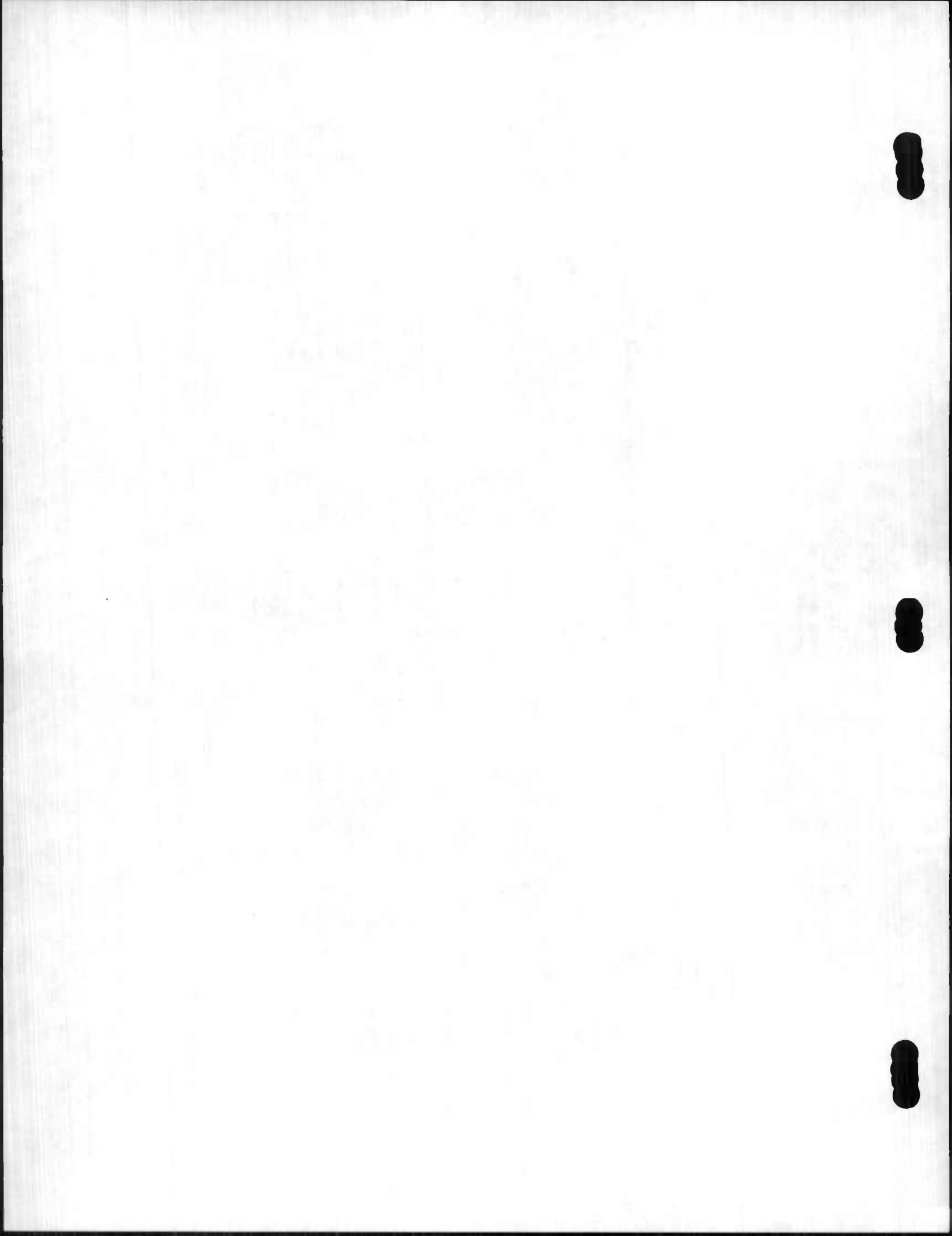
Current Sinking Fund Balance \$1,760,000

Initial Transaction
 GNMA Purchase 15 yr @ 6.50% \$1,500,000
 Zero Coupon Purchase \$260,000

Year	REVENUE INVESTED IN:		RATE	CASH FLOW		Annual Expenses	Excess Balance	Future Value
	U.S. Zero Bond	Treasury Note	Treasury Percentage	Treasury Note	GNMA			
INITIAL PURCHASE	\$260,000		7.00%					\$690,788
1992	\$310,000		7.00%	\$0	\$156,000	\$100,000	\$56,000	\$823,632
1993	\$310,000		7.00%	\$0	\$156,000	\$105,000	\$111,280	\$768,106
1994	\$310,000		7.00%	\$0	\$156,000	\$110,250	\$163,311	\$716,323
1995	\$310,000		7.00%	\$0	\$156,000	\$115,763	\$211,691	\$668,031
1996	\$310,000		7.00%	\$0	\$156,000	\$121,551	\$255,986	\$622,995
1997	\$360,000		6.50%	\$0	\$156,000	\$127,628	\$295,732	\$645,177
1998	\$360,000		6.50%	\$0	\$156,000	\$134,010	\$330,431	\$604,680
1999	\$360,000		6.50%	\$0	\$156,000	\$140,710	\$359,550	\$566,726
2000	\$360,000		6.50%	\$0	\$156,000	\$147,746	\$382,517	\$531,153
2001	\$360,000		6.50%	\$0	\$156,000	\$155,133	\$398,719	\$497,814
2002		\$410,000	6.00%	\$24,600	\$156,000	\$162,889	\$433,087	\$310,000
2003		\$410,000	6.00%	\$49,200	\$156,000	\$171,034	\$485,943	\$310,000
2004		\$410,000	6.00%	\$73,800	\$156,000	\$179,586	\$557,604	\$310,000
2005		\$410,000	6.00%	\$98,400	\$156,000	\$188,565	\$648,376	\$310,000
2006		\$410,000	6.00%	\$123,000	\$156,000	\$197,993	\$758,558	\$310,000
TOTAL:							\$758,558	\$8,685,425
COMBINED TOTAL:								\$9,443,983

Assumptions:

Annual expenses:	\$100,000 increasing 5% per year.
Income:	\$310,000 increasing by \$50,000 in 1997 & 2002
Projected 15 yr Value.	\$9,443,983
Excess Balance:	Earns a rate of 4%.



St. Michaels
Case A
Scenario #3

Current Sinking Fund Balance \$1,760,000
 Initial Transaction
 GNMA Purchase 15 yr @ 6.50% \$1,250,000
 Zero Coupon Purchase \$510,000

Year	REVENUE INVESTED IN:		RATE	CASH FLOW		Annual Expenses	Excess Balance	Future Value	
	U.S. Zero Bond	Treasury Note	Treasury Percentage	Treasury Note	GNMA				
INITIAL PURCHASE	\$510,000		7.00%	\$0				\$1,355,009	
1992	\$310,000		7.00%	\$0	\$130,000	\$100,000	\$30,000	\$823,632	
1993	\$310,000		7.00%	\$0	\$130,000	\$105,000	\$57,200	\$768,106	
1994	\$310,000		7.00%	\$0	\$130,000	\$110,250	\$80,028	\$716,323	
1995	\$310,000		7.00%	\$0	\$130,000	\$115,763	\$98,036	\$668,031	
1996	\$310,000		7.00%	\$0	\$130,000	\$121,551	\$110,745	\$622,995	
1997	\$310,000		6.50%	\$0	\$130,000	\$127,628	\$117,641	\$555,569	
1998	\$310,000		6.50%	\$0	\$130,000	\$134,010	\$118,177	\$520,697	
1999	\$310,000		6.50%	\$0	\$130,000	\$140,710	\$111,766	\$488,014	
2000	\$310,000		6.50%	\$0	\$130,000	\$147,746	\$97,781	\$457,382	
2001	\$310,000		6.50%	\$0	\$130,000	\$155,133	\$75,554	\$428,677	
2002		\$310,000	6.00%	\$18,600	\$130,000	\$162,889	\$63,715	\$310,000	
2003		\$310,000	6.00%	\$37,200	\$130,000	\$171,034	\$62,277	\$310,000	
2004		\$310,000	6.00%	\$55,800	\$130,000	\$179,586	\$71,231	\$310,000	
2005		\$310,000	6.00%	\$74,400	\$130,000	\$188,565	\$90,548	\$310,000	
2006		\$310,000	6.00%	\$93,000	\$130,000	\$197,993	\$120,177	\$310,000	
TOTAL:							\$120,177	\$8,954,435	
COMBINED TOTAL:								\$120,177	\$9,074,612

Assumptions:

Annual expenses:
 Income:
 Projected 15 yr Value.
 Excess Balance:

\$100,000 increasing 5% per year.
 \$310,000 remaining constant.
 \$9,074,612
 Earns a rate of 4%.



St. Michaels
Case A
Scenerio #4

Current Sinking Fund Balance \$1,760,000
 Initial Transaction
 GNMA Purchase 15 yr @ 6.50% \$1,250,000
 Zero Coupon Purchase \$510,000

Year	REVENUE INVESTED IN:		RATE	CASH FLOW		Annual Expenses	Excess Balance	Future Value	
	U.S. Zero Bond	Treasury Note	Treasury Percentage	Treasury Note	GNMA				
INITIAL PURCHASE	\$510,000		7.00%	\$0				\$1,355,009	
1992	\$310,000		7.00%	\$0	\$130,000	\$100,000	\$30,000	\$823,632	
1993	\$310,000		7.00%	\$0	\$130,000	\$105,000	\$57,200	\$768,106	
1994	\$310,000		7.00%	\$0	\$130,000	\$110,250	\$80,028	\$716,323	
1995	\$310,000		7.00%	\$0	\$130,000	\$115,763	\$98,036	\$668,031	
1996	\$310,000		7.00%	\$0	\$130,000	\$121,551	\$110,745	\$622,995	
1997	\$360,000		6.50%	\$0	\$130,000	\$127,628	\$117,641	\$645,177	
1998	\$360,000		6.50%	\$0	\$130,000	\$134,010	\$118,177	\$604,680	
1999	\$360,000		6.50%	\$0	\$130,000	\$140,710	\$111,766	\$566,726	
2000	\$360,000		6.50%	\$0	\$130,000	\$147,746	\$97,781	\$531,153	
2001	\$360,000		6.50%	\$0	\$130,000	\$155,133	\$75,554	\$497,814	
2002		\$410,000	6.00%	\$24,600	\$130,000	\$162,889	\$69,955	\$310,000	
2003		\$410,000	6.00%	\$49,200	\$130,000	\$171,034	\$81,246	\$310,000	
2004		\$410,000	6.00%	\$73,800	\$130,000	\$179,586	\$109,679	\$310,000	
2005		\$410,000	6.00%	\$98,400	\$130,000	\$188,565	\$155,495	\$310,000	
2006		\$410,000	6.00%	\$123,000	\$130,000	\$197,993	\$218,922	\$310,000	
TOTAL:							\$218,922	\$9,349,646	\$218,922
COMBINED TOTAL:								\$9,568,568	

Assumptions:

Annual expenses:	\$100,000 increasing 5% per year.
Income:	\$310,000 increasing by \$50,000 in 1997 & 2002
Projected 15 yr Value.	\$9,568,568
Excess Balance:	Earns a rate of 4%.



St. Michaels
Case B
Scenario #1

Current Sinking Fund Balance \$1,760,000

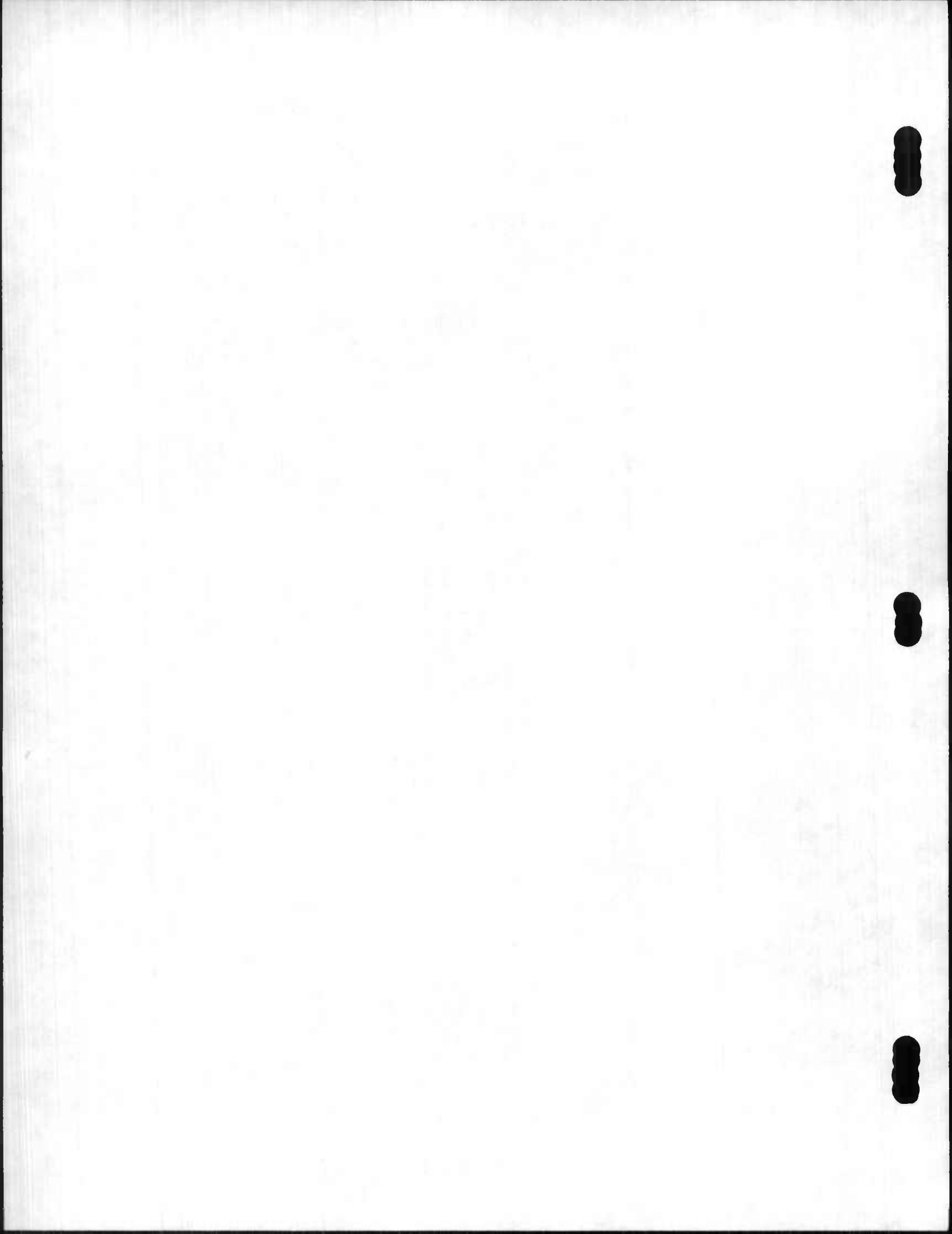
Initial Transaction

GNMA Purchase 15 yr @ 6.50% \$1,760,000
Zero Coupon Purchase \$0

Year	REVENUE INVESTED IN:		RATE		CASH FLOW		Annual Expenses	Excess Balance	Future Value
	U.S. Zero Bond	Treasury Note	Treasury Percentage	Lease Revenue	Treasury Note	GNMA			
1992	\$298,000		7.00%	\$310,000	\$0	\$184,000	\$100,000	\$100,000	\$848,986
1993	\$393,000		7.00%	\$310,000	\$0	\$184,000	\$105,000	\$100,000	\$1,044,154
1994	\$387,750		7.00%	\$310,000	\$0	\$184,000	\$110,250	\$100,000	\$960,752
1995	\$382,238		7.00%	\$310,000	\$0	\$184,000	\$115,763	\$100,000	\$883,245
1996	\$376,449		7.00%	\$310,000	\$0	\$184,000	\$121,551	\$100,000	\$811,224
1997	\$370,372		7.00%	\$310,000	\$0	\$184,000	\$127,628	\$100,000	\$744,322
1998	\$363,990		7.00%	\$310,000	\$0	\$184,000	\$134,010	\$100,000	\$682,181
1999	\$357,290		7.00%	\$310,000	\$0	\$184,000	\$140,710	\$100,000	\$624,480
2000	\$350,254		7.00%	\$310,000	\$0	\$184,000	\$147,746	\$100,000	\$570,911
2001	\$342,867		7.00%	\$310,000	\$0	\$184,000	\$155,133	\$100,000	\$521,194
2002		\$335,111	7.00%	\$310,000	\$23,458	\$184,000	\$162,889	\$100,000	\$335,111
2003		\$326,966	7.00%	\$310,000	\$46,345	\$184,000	\$171,034	\$100,000	\$326,966
2004		\$318,414	7.00%	\$310,000	\$68,634	\$184,000	\$179,586	\$100,000	\$318,414
2005		\$309,435	7.00%	\$310,000	\$90,295	\$184,000	\$188,565	\$100,000	\$309,435
2006		\$300,007	7.00%	\$310,000	\$111,295	\$184,000	\$197,993	\$100,000	\$300,007
							TOTAL:	\$100,000	\$9,281,382
							COMBINED TOTAL:		\$100,000
									\$9,381,382

Assumptions:

Annual expenses: \$100,000 increasing 5% per year.
Income: \$310,000 remaining constant.
Projected 15 yr Value: \$9,381,382
Excess Balance: Earns a rate of 4%.



St. Michaels
Case B
Scenario #2

Current Sinking Fund Balance \$1,760,000

Initial Transaction

GNMA Purchase 15 yr @ 6.50% \$1,760,000
Zero Coupon Purchase \$0

Year	REVENUE INVESTED IN:		RATE		CASH FLOW		Annual Expenses	Excess Balance	Future Value
	U.S. Zero Bond	Treasury Note	Treasury Percentage	Lease Revenue	Treasury Note	GNMA			
1992	\$298,000		7.00%	\$310,000	\$0	\$184,000	\$100,000	\$100,000	\$848,986
1993	\$393,000		7.00%	\$310,000	\$0	\$184,000	\$105,000	\$100,000	\$1,044,154
1994	\$387,750		7.00%	\$310,000	\$0	\$184,000	\$110,250	\$100,000	\$960,752
1995	\$382,238		7.00%	\$310,000	\$0	\$184,000	\$115,763	\$100,000	\$883,245
1996	\$376,449		7.00%	\$310,000	\$0	\$184,000	\$121,551	\$100,000	\$811,224
1997	\$420,372		7.00%	\$360,000	\$0	\$184,000	\$127,628	\$100,000	\$844,805
1998	\$413,990		7.00%	\$360,000	\$0	\$184,000	\$134,010	\$100,000	\$775,890
1999	\$407,290		7.00%	\$360,000	\$0	\$184,000	\$140,710	\$100,000	\$711,872
2000	\$400,254		7.00%	\$360,000	\$0	\$184,000	\$147,746	\$100,000	\$652,411
2001	\$392,867		7.00%	\$360,000	\$0	\$184,000	\$155,133	\$100,000	\$597,199
2002		\$435,111	7.00%	\$410,000	\$30,458	\$184,000	\$162,889	\$100,000	\$435,111
2003		\$426,966	7.00%	\$410,000	\$60,345	\$184,000	\$171,034	\$100,000	\$426,966
2004		\$418,414	7.00%	\$410,000	\$89,634	\$184,000	\$179,586	\$100,000	\$418,414
2005		\$409,435	7.00%	\$410,000	\$118,295	\$184,000	\$188,565	\$100,000	\$409,435
2006		\$400,007	7.00%	\$410,000	\$146,295	\$184,000	\$197,993	\$100,000	\$400,007
TOTAL:								\$100,000	\$10,220,471
COMBINED TOTAL:									\$100,000
COMBINED TOTAL:									\$10,320,471

Assumptions:

Annual expenses: \$100,000 increasing 5% per year.
Income: \$310,000 increasing by \$50,000 in 1997 & 2002
Projected 15 yr Value. \$10,320,471
Excess Balance: Earns a rate of 4%.



St. Michaels
Case B
Scenario #3

Current Sinking Fund Balance \$1,760,000

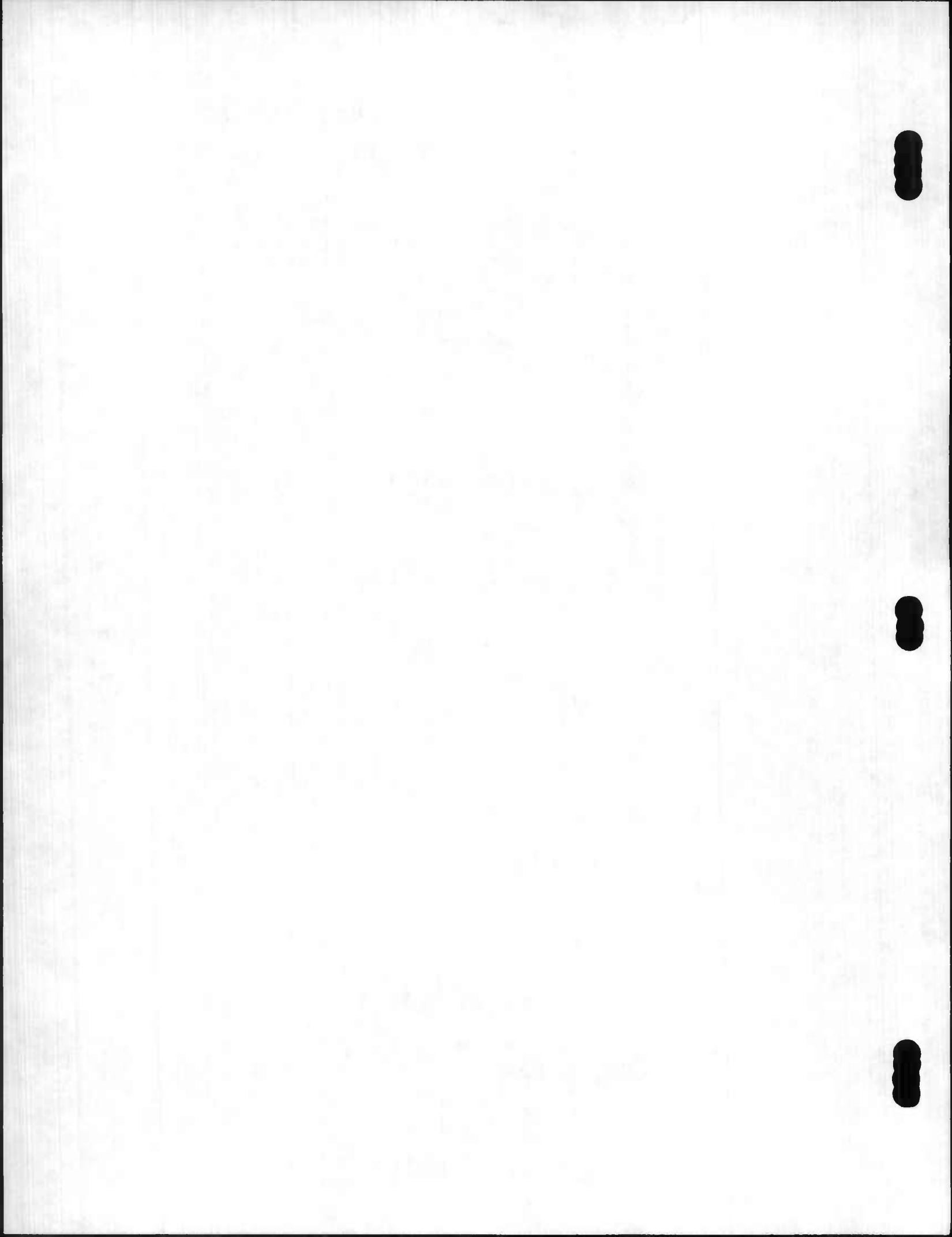
Initial Transaction

GNMA Purchase 15 yr @ 6.50% \$0
Zero Coupon Purchase \$1,760,000

Year	REVENUE INVESTED IN:		RATE		CASH FLOW		Annual Expenses	Excess Balance	Future Value
	U.S. Zero Bond	Treasury Note	Treasury Percentage	Lease Revenue	Treasury Note	GNMA			
INITIAL PURCHASE	\$1,760,000		7.00%		\$0	\$0			\$5,014,146
1992	\$114,000		7.00%	\$310,000	\$0	\$0	\$100,000	\$100,000	\$324,779
1993	\$209,000		7.00%	\$310,000	\$0	\$0	\$105,000	\$100,000	\$555,288
1994	\$203,750		7.00%	\$310,000	\$0	\$0	\$110,250	\$100,000	\$504,844
1995	\$198,238		7.00%	\$310,000	\$0	\$0	\$115,763	\$100,000	\$458,072
1996	\$192,449		7.00%	\$310,000	\$0	\$0	\$121,551	\$100,000	\$414,716
1997	\$186,372		6.50%	\$310,000	\$0	\$0	\$127,628	\$100,000	\$356,377
1998	\$179,990		6.50%	\$310,000	\$0	\$0	\$134,010	\$100,000	\$322,570
1999	\$173,290		6.50%	\$310,000	\$0	\$0	\$140,710	\$100,000	\$291,069
2000	\$166,254		6.50%	\$310,000	\$0	\$0	\$147,746	\$100,000	\$261,723
2001	\$158,867		6.50%	\$310,000	\$0	\$0	\$155,133	\$100,000	\$234,396
2002		\$151,111	6.00%	\$310,000	\$9,067	\$0	\$162,889	\$100,000	\$151,111
2003		\$142,966	6.00%	\$310,000	\$17,645	\$0	\$171,034	\$100,000	\$142,966
2004		\$134,414	6.00%	\$310,000	\$25,709	\$0	\$179,586	\$100,000	\$134,414
2005		\$125,435	6.00%	\$310,000	\$33,236	\$0	\$188,565	\$100,000	\$125,435
2006		\$116,007	6.00%	\$310,000	\$40,196	\$0	\$197,993	\$100,000	\$116,007
							TOTAL:	\$100,000	\$9,407,913
							COMBINED TOTAL:		\$100,000
									\$9,507,913

Assumptions:

Annual expenses: \$100,000 increasing 5% per year.
Income: \$310,000 remaining constant.
Projected 15 yr Value: \$9,507,913
Excess Balance: Earns a rate of 4%.



St. Michaels
Case B
Scenario #4

Current Sinking Fund Balance \$1,760,000

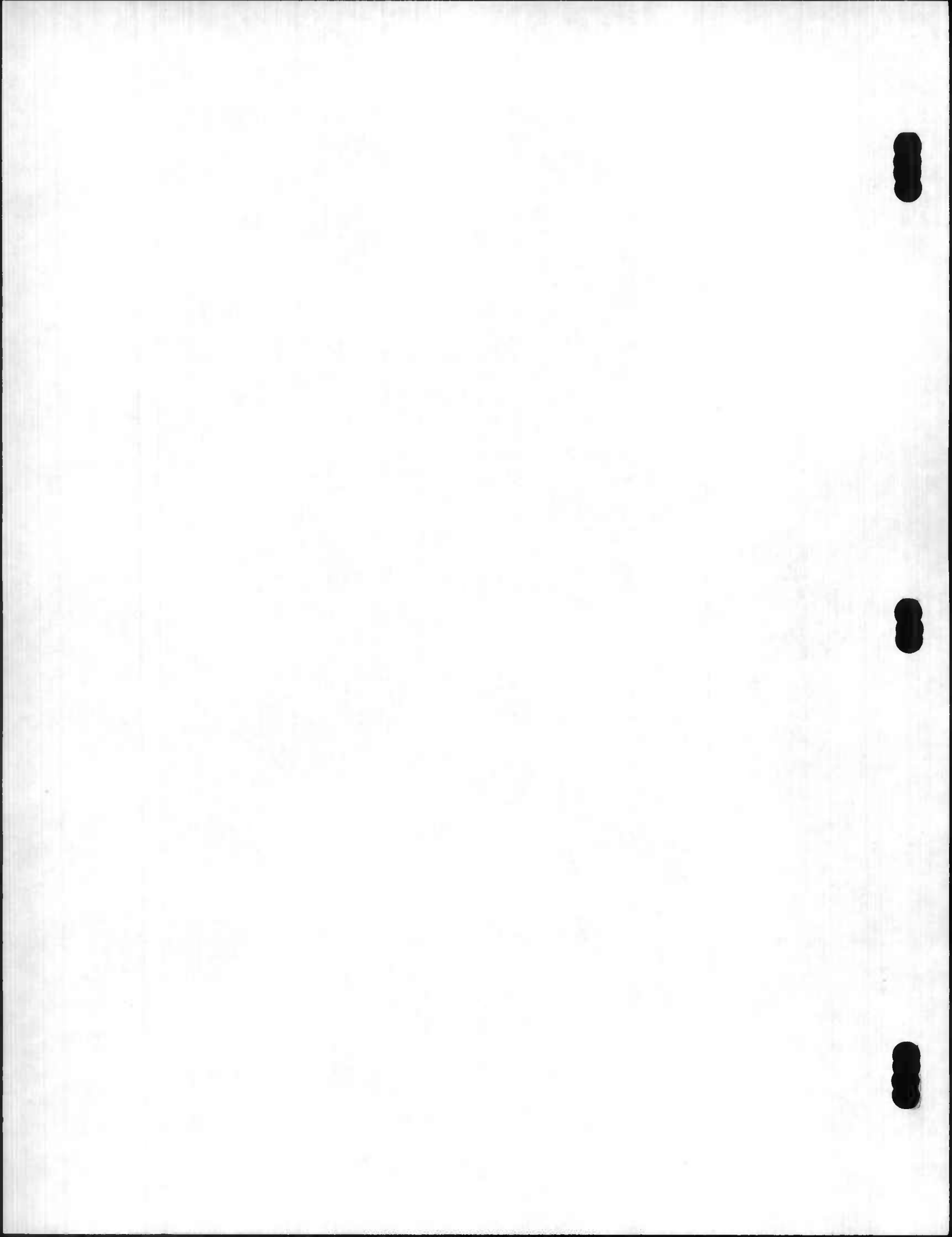
Initial Transaction

GNMA Purchase 15 yr @ 6.50% \$0
Zero Coupon Purchase \$1,760,000

Year	REVENUE INVESTED IN:		RATE		CASH FLOW		Annual Expenses	Excess Balance	Future Value
	U.S. Zero Bond	Treasury Note	Treasury Percentage	Lease Revenue	Treasury Note	GNMA			
INITIAL PURCHASE	\$1,760,000		7.00%		\$0	\$0			\$5,014,146
1992	\$114,000		7.00%	\$310,000	\$0	\$0	\$100,000	\$100,000	\$324,779
1993	\$209,000		7.00%	\$310,000	\$0	\$0	\$105,000	\$100,000	\$555,288
1994	\$203,750		7.00%	\$310,000	\$0	\$0	\$110,250	\$100,000	\$504,844
1995	\$198,238		7.00%	\$310,000	\$0	\$0	\$115,763	\$100,000	\$458,072
1996	\$192,449		7.00%	\$310,000	\$0	\$0	\$121,551	\$100,000	\$414,716
1997	\$236,372		6.50%	\$360,000	\$0	\$0	\$127,628	\$100,000	\$451,986
1998	\$229,990		6.50%	\$360,000	\$0	\$0	\$134,010	\$100,000	\$412,178
1999	\$223,290		6.50%	\$360,000	\$0	\$0	\$140,710	\$100,000	\$375,053
2000	\$216,254		6.50%	\$360,000	\$0	\$0	\$147,746	\$100,000	\$340,435
2001	\$208,867		6.50%	\$360,000	\$0	\$0	\$155,133	\$100,000	\$308,168
2002		\$251,111	6.00%	\$410,000	\$15,067	\$0	\$162,889	\$100,000	\$251,111
2003		\$242,966	6.00%	\$410,000	\$29,645	\$0	\$171,034	\$100,000	\$242,966
2004		\$234,414	6.00%	\$410,000	\$43,709	\$0	\$179,586	\$100,000	\$234,414
2005		\$225,435	6.00%	\$410,000	\$57,236	\$0	\$188,565	\$100,000	\$225,435
2006		\$216,007	6.00%	\$410,000	\$70,196	\$0	\$197,993	\$100,000	\$216,007
							TOTAL:	\$100,000	\$10,329,598
									\$100,000
							COMBINED TOTAL:		\$10,429,598

Assumptions:

Annual expenses:	\$100,000 increasing 5% per year.
Income:	\$310,000 increasing by \$50,000 in 1997 & 2002
Projected 15 yr Value.	\$10,429,598
Excess Balance:	Earns a rate of 4%.



NOVEMBER 18, 1992

Utilities Commission Vice President Harold Bassett and Roberta H. Marshall met with the Town Commissioners in the town office meeting room on Wednesday, November 18, 1992. Alex J. Spencer and newly-appointed William A. Morse were unable to attend. Ken Fischbach, from Maryland National Bank, also was present.

The meeting was called to order by the President of the Town Commissioners, Gerald Edmondson, at 7:30 P.M.

The purpose of the meeting was to discuss the investment of the Sinking Fund. On a motion by Fred Mowbray, seconded by John Dunlap, the Commission went into Executive Session.

Mr. Edmondson then turned the meeting over to Mr. Bassett to explain the Utilities' recommendations for investment of the Fund. Mr. Bassett was assisted in his explanation by Mr. Fischbach.

At the end of the discussion, the Town Commissioners stated that they would give the matter their serious consideration, and will inform the Utilities of their decision as soon as possible.

Mr. Bassett, Mr. Fischbach, and Mrs. Marshall left the meeting at 8:30 P.M.


Roberta H. Marshall, Secretary-Treasurer




DECEMBER 1, 1992

The St. Michaels Utilities Commissioners met with Delmarva personnel for the group's annual meeting at noon on Tuesday, December 1, 1992 at The Inn at Perry Cabin. Those present were Utilities members Alex J. Spencer, William A. Morse and Roberta H. Marshall. Town Clerk/Manager Andrew Hollis was present, and Ken Jones, George Vaapa and Larry Wood represented Delmarva. Harold Bassett, the Utilities Vice President, was unable to attend.

Noting that the Maryland Public Service Commission has ruled favorably on the increase in the rent that was granted by the arbitrator, Mr. Jones presented a check to Mr. Hollis in the amount of \$54,162. This represents the increase in the amount due from October of 1991 to the present. The next monthly check, which will be mailed in mid-December, will be the regular monthly payment of \$25,833.

The balance of the meeting was devoted to discussion of statistics in the annual report.

Following a tour of the property, which is perhaps the St. Michaels system's largest customer of its type, the group dispersed at 1:30 P.M.


Roberta H. Marshall, Secretary-Treasurer

DECEMBER 14, 1992

A meeting of the St. Michaels Utilities Commission was held on Monday, December 14, 1992 in the Town Office Meeting Room. Members present were Harold Bassett, Alex Spencer and Roberta Marshall. Town Manager R. Andrew Hollis also attended the meeting. Mr. Morse was unable to attend.

The meeting was called to order by Vice President Bassett at 3:20 P.M. The minutes of October 19, November 18 and December 1 were approved as written and circulated.

Mr. Bassett stated that the purpose of the meeting was further discussion of the investment of the sinking fund. He added that at their December 8 meeting the Town Commissioners voted unanimously to accept Scenario B-3 of the Utilities' proposals, and their vote directed the Utilities Commissioners to supervise the investment. Scenario B-3 will be modified to include the amount of the electric bills.

The group then went into executive session to discuss the investment.

The following was decided during executive session:

1. The entire amount now in the fund should be invested as soon as possible.
2. All the local banks will be given the opportunity to bid on handling the investment, thereby assuring the Town of getting the best possible rate.
3. The securities will be listed in the Town's name with the Town Manager as custodian, and will be held in Baltimore at a branch of the Federal Reserve Bank.

Since the Town Commissioners have not made a decision on the Utilities' request to amend the charter and the request to set aside monies for a study in regard to condemnation of the lease, it was decided that it is desirable to meet again with them. The Town Manager and Mr. Bassett will arrange a time suitable to all.

There was no further business, and the meeting was adjourned at 4:00 P.M.



Roberta H. Marshall, Secretary-Treasurer

St. Michaels
Case B
Scenario #3

Revised

Current Sinking Fund Balance \$1,760,000

Initial Transaction

GNMA Purchase 15 yr @ 6.50% \$0
Zero Coupon Purchase \$1,760,000

Year	REVENUE INVESTED IN:		RATE		CASH FLOW		Annual Expenses	Excess Balance	Future Value
	U.S. Zero Bond	Treasury Note	Treasury Percentage	Lease Revenue	Treasury Note	GNMA			
INITIAL PURCHASE	\$1,760,000		7.00%		\$0	\$0			\$5,014,146
1992	\$94,000		7.00%	\$310,000	\$0	\$0	\$120,000	\$100,000	\$324,779
1993	\$188,000		7.00%	\$310,000	\$0	\$0	\$126,000	\$100,000	\$555,288
1994	\$181,700		7.00%	\$310,000	\$0	\$0	\$132,300	\$100,000	\$504,844
1995	\$175,085		7.00%	\$310,000	\$0	\$0	\$138,915	\$100,000	\$458,072
1996	\$168,139		7.00%	\$310,000	\$0	\$0	\$145,861	\$100,000	\$414,716
1997	\$160,846		6.50%	\$310,000	\$0	\$0	\$153,154	\$100,000	\$356,377
1998	\$153,189		6.50%	\$310,000	\$0	\$0	\$160,811	\$100,000	\$322,570
1999	\$145,148		6.50%	\$310,000	\$0	\$0	\$168,852	\$100,000	\$291,069
2000	\$136,705		6.50%	\$310,000	\$0	\$0	\$177,295	\$100,000	\$261,723
2001	\$127,841		6.50%	\$310,000	\$0	\$0	\$186,159	\$100,000	\$234,396
2002		\$118,533	6.00%	\$310,000	\$7,112	\$0	\$195,467	\$100,000	\$118,533
2003		\$115,871	6.00%	\$310,000	\$14,064	\$0	\$205,241	\$100,000	\$115,871
2004		\$112,561	6.00%	\$310,000	\$20,818	\$0	\$215,503	\$100,000	\$112,561
2005		\$108,540	6.00%	\$310,000	\$27,330	\$0	\$226,278	\$100,000	\$108,540
2006		\$103,739	6.00%	\$310,000	\$33,555	\$0	\$237,592	\$100,000	\$103,739
TOTAL:								\$100,000	\$9,330,779
COMBINED TOTAL:									\$100,000
COMBINED TOTAL:									\$9,430,779

Assumptions:

Annual expenses: \$120,000 increasing 5% per year.
Income: \$310,000 remaining constant.
Projected 15 yr Value: \$9,430,779
Excess Balance: Earns a rate of 4%.



St. Michaels
Case B
Scenario #4

Revised

Current Sinking Fund Balance \$1,760,000

Initial Transaction

GNMA Purchase 15 yr @ 6.50% \$0
Zero Coupon Purchase \$1,760,000

Year	REVENUE INVESTED IN:		RATE		CASH FLOW		Annual Expenses	Excess Balance	Future Value
	U.S. Zero Bond	Treasury Note	Treasury Percentage	Lease Revenue	Treasury Note	GNMA			
INITIAL PURCHASE	\$1,760,000		7.00%		\$0	\$0			\$5,014,146
1992	\$94,000		7.00%	\$310,000	\$0	\$0	\$120,000	\$100,000	\$324,779
1993	\$188,000		7.00%	\$310,000	\$0	\$0	\$126,000	\$100,000	\$555,288
1994	\$181,700		7.00%	\$310,000	\$0	\$0	\$132,300	\$100,000	\$504,844
1995	\$175,085		7.00%	\$310,000	\$0	\$0	\$138,915	\$100,000	\$458,072
1996	\$168,139		7.00%	\$310,000	\$0	\$0	\$145,861	\$100,000	\$414,716
1997	\$210,846		6.50%	\$360,000	\$0	\$0	\$153,154	\$100,000	\$451,986
1998	\$203,189		6.50%	\$360,000	\$0	\$0	\$160,811	\$100,000	\$412,178
1999	\$195,148		6.50%	\$360,000	\$0	\$0	\$168,852	\$100,000	\$375,053
2000	\$186,705		6.50%	\$360,000	\$0	\$0	\$177,295	\$100,000	\$340,435
2001	\$177,841		6.50%	\$360,000	\$0	\$0	\$186,159	\$100,000	\$308,168
2002		\$218,533	6.00%	\$410,000	\$13,112	\$0	\$195,467	\$100,000	\$218,533
2003		\$221,871	6.00%	\$410,000	\$26,424	\$0	\$205,241	\$100,000	\$221,871
2004		\$224,921	6.00%	\$410,000	\$39,920	\$0	\$215,503	\$100,000	\$224,921
2005		\$227,642	6.00%	\$410,000	\$53,578	\$0	\$226,278	\$100,000	\$227,642
2006		\$229,986	6.00%	\$410,000	\$67,377	\$0	\$237,592	\$100,000	\$229,986
							TOTAL:	\$100,000	\$10,349,995
							COMBINED TOTAL:		\$10,449,995

Assumptions:

Annual expenses: \$120,000 increasing 5% per year.
 Income: \$310,000 increasing by \$50,000 in 1997 & 2002
 Projected 15 yr Value: \$10,449,995
 Excess Balance: Earns a rate of 4%.

