

*Law Offices*

*Duncan, Weinberg, Miller & Pembroke, P. C.*

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THOMAS J. LYNCH  
OF COUNSEL

OF COUNSEL

FREDERICK L. MILLER, JR.  
RICHARD K. PELZ †  
HAROLD K. MCCOMBS, JR.

September 2, 1994

† ADMITTED IN WASHINGTON ONLY

Buck Bassett  
Vice President  
St. Michaels Utilities Commission  
111 West Chew  
St. Michaels, MD 21663

Dear Buck:

Both John Wilson and I feel that it would be advisable for the St. Michaels' Utilities Commission or the Town of St. Michaels to engage the services of a financial consultant if serious consideration is to be given to the matter of condemning the lease with Delmarva Power & Light.

John and I discussed the matter and, independently, we both thought of Marshall Lancaster who just formed a new firm (Public Finance America, L.L.C.) in Wichita, Kansas. (See attached letter and resume).

I called Marshall to see if he would be interested or could recommend someone else. As indicated in the attached letter, Marshall is very interested in working with St. Michaels and is willing to do so on a contingent fee basis, i.e., his fees will be paid only if and when there is a successful bond issue to finance the project. He did indicate that they would expect to be reimbursed for any significant out-of-pocket costs such as airfare and travel expenses if required to come to St. Michaels for consultations.

Both John and I have worked with Marshall in the past and feel that he is qualified and innovative.

I have also tried unsuccessfully to reach Ozzie Carlsen of First Boston in New York to see if his company might be interested. I will let you know when I hear from Oz.

In the meantime, we are taking a preliminary look at St. Michaels' authority to issue bonds and possibly bond

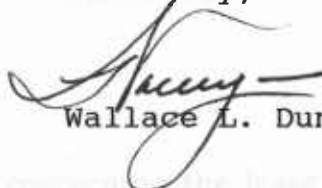


anticipation notes and at any restrictions on the use of the sinking fund to pay expenses related to a condemnation of the lease. As of today (September 2), I had not received a copy of the Town's Charter. I expect it will be in the mail on Tuesday.

John and I agree that it would be a very good idea to develop or obtain a current inventory of the system and a determination of the current net book value of the additions and improvements which DP&L has installed since 1981. If you need assistance in getting this information off of DP&L's books, please give me a call.

Thanks again to you and Mary for a delightful lunch and day in St. Michaels last Tuesday.

Sincerely,

  
Wallace L. Duncan

Dear Wall:

I appreciate very much your letter concerning the lease in St. Michaels and would be delighted to act as financial adviser to the town.

Enclosed are two sets of general materials concerning our firm. Although it does not appear in the proposed description, Sam Jack and I have been involved in the past in changes of ownership of municipal electric systems. For my part, I have help defend four systems against threatened takeover by rate or lease. Jack has been the investment banker for the creation of several new municipal systems which are now in successful operation. In other words, we have more than a passing acquaintance with the kinds of issues St. Michaels will face in taking action on the lease.

As we discussed, Public Finance America would work for a sliding-scale fee which would be contingent upon St. Michaels achieving a financing or similar new arrangement. Depending on how the matter proceeds, I would like to be able to recover reasonable out-of-pocket costs for travel. I will forward to you a conventional advisory agreement as a few days. In the meantime, I will begin a search for current financial information on Delaware in some out-of-the-way places in lower Manhattan.

Again, thank you and Dr. Wilson for thinking of me. I hope that we will work together on what is an opportunity for St. Michaels to improve its situation considerably.

Sincerely,  
  
Marshall Lancaster



*Public Finance America, L.L.C.*  
*Board of Trade Center*  
*120 South Market Street, Suite 200*  
*Wichita, Kansas 67202*

*Public Finance America, L.L.C.*

Telephone (316) 265-5502

Facsimile (316) 262-5754

September 2, 1994

Wallace L. Duncan, Esq.  
Duncan, Weinberg, Miller & Pembroke, P.C.  
Suite 800  
1615 M Street, N.W.  
Washington, D.C. 20036

Dear Wally:

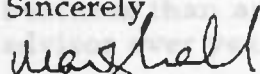
I appreciate very much your letter concerning the lease in St. Michaels and would be delighted to act as financial advisor to the town.

Enclosed are four sets of general materials concerning our firm. Although it does not appear in the prepared descriptions, both Jack and I have been involved in the past in changes of ownership of municipal electric systems. For my part, I have help defend four systems against threatened takeovers by sale or lease; Jack has been the investment banker for the creation of several new municipal systems which are now in successful operation. In other words, we have more than a passing acquaintance with the kinds of issues St. Michaels will face in taking action on the lease.

As we discussed, Public Finance America would work for a sliding-scale fee which would be contingent upon St. Michaels' achieving a financing or similar new arrangement. Depending on how this matter proceeds, I would like to be able to recover reasonable out-of-pocket costs for travel. I will forward to you a conventional advisors' agreement in a few days. In the meantime, I will begin a search for current financial information on Delmarva in some out-of-the-way places in lower Manhattan.

Again, thank you and Dr. Wilson for thinking of me. I hope that we will work together on what is an opportunity for St. Michaels to improve its situation considerably.

Sincerely,



Marshall Lancaster



### *Public Finance America, L.L.C.*

The objective of Public Finance America, L.L.C. is to provide quality services to a limited number of public finance clients. We do so with the hands-on dedication of professionals who have experienced enough changes in the conditions of issuers and the markets to have a valuable perspective on municipal finance.

Whether it be fluctuating pressures on governmental budgets, changes in the law and regulation, economic highs and lows and their effect on the demand for public services, shifting investor appetites for municipal bonds, or the ceaseless innovation in public finance which can seem to require decisions from issuers almost daily, Public Finance America, L.L.C. tries to stay ahead of events.

When we act as a financial advisor, we perform that function solely. Our purposes are clear:

To assist our clients in obtaining the most economical debt service possible;

To help them structure their finances in a rational manner so that risk and paperwork are manageable;

To help them address the challenges and opportunities presented by increased competition;

To be prepared to take advantage of good markets and diverse sources of funding; and

To recognize that there are occasions when hastening into a project or a financing is not productive.

Because we are oriented toward ongoing relationships more than to single-shot transactions, our principals have often found themselves involved in more of their clients' activities than bond issues. When asked, we participate in strategic planning, in contract negotiations, in regulatory forums, and in seeking legislative change. Our experience has been that the benefit from even one idea--- explored and shaped jointly with the client, who after all knows more about its business than any outside expert--- can be many multiples of the fees paid to an advisor over years.



## Marshall Lancaster

Mr. Lancaster has been involved in tax-exempt financing for 22 years. He has been financial advisor, senior managing underwriter, or co-managing underwriter for clients issuing more than \$23 billion in securities. He was also the leading developer and original manager of the largest joint-action electric program in the United States in terms of sales, revenues, and financings.

### Mr. Lancaster's prior experience includes:

Utility Advisors Corporation.....	President
Dean Witter Reynolds Inc.....	Senior Vice President
E.F. Hutton & Co. Inc.....	First Vice President
Lehman Brothers Kuhn Loeb.....	Vice President
ElectriCities of North Carolina and N.C. Municipal Power Agencies.....	Executive Director, General Manager
U.S. Senate Committee on Public Works.....	Prof. Staff Member
U.S. Rep. Nick Galifianakis.....	Legislative Director
U.S. Senate Committee on the Judiciary.....	Prof. Staff Member
<u>Washington Post</u> .....	Front Section Editor
<u>News and Observer</u> .....	Reporter
<u>Washington Daily News</u> .....	Editor/Reporter

### His clients in public finance have included:

American Municipal Power-Ohio  
 Anderson, Ind. Municipal Light & Power  
 Arkansas River Power Authority  
 City of Burlington, Vt.  
 Connecticut Municipal Electric Energy Cooperative  
 Indiana Municipal Power Agency  
 Intermountain Power Agency  
 Jacksonville, Fla. Electric Authority  
 Kansas Municipal Energy Agency  
 Kissimmee, Fla. Utilities Commission  
 Lafayette, La. Public Power Authority  
 City of Lakeland, Fla.  
 Massachusetts Municipal Wholesale Electric Company  
 Michigan Public Power Agency  
 Municipal Energy Agency of Nebraska  
 Municipal Electric Power Association of Virginia  
 New York State Power Authority  
 North Carolina Municipal Power Agency Number 1  
 North Dakota Municipal Power Agency



Northeastern Minnesota Municipal Power Agency  
Northern Municipal Power Agency  
North Iowa Municipal Electric Cooperative Association  
Northwest Kansas Municipal Energy Association  
Oklahoma Municipal Power Authority  
Omaha Public Power District  
Orlando Utilities Commission  
Piedmont Municipal Power Agency  
Platte River Power Authority  
City of Rock Hill, S.C.  
Sacramento Municipal Utility District  
Salt River Project  
Sam Rayburn Municipal Power Agency  
Sebring, Fla. Utilities Commission  
South Carolina Public Service Authority  
Southern California Public Power Authority  
Tennessee Valley Public Power Association  
United Minnesota Municipal Power Agency  
Washington Public Power Supply System  
Western Wisconsin Municipal Power Group  
Wisconsin Public Power, Inc.

Apart from financings, Mr. Lancaster has been and is involved on behalf of his clients in negotiations, regulatory proceedings, contract drafting and legislation. He has represented clients in negotiations with more than 20 investor-owned utilities. He is past chairman of the Advisory Committee of the American Public Power Association and a past member of the APPA's Board of Directors.



### Jack Ranson

Jack Ranson has been an investment banker for more than 40 years. He has acted as financial advisor, lead underwriter, or co-managing underwriter for more than 40 public finance clients.

In addition to being Chairman of Public Finance America, L.L.C., Mr. Ranson is chairman of the separate Ranson Municipal Consultants, L.L.C., chairman of the Kansas Managed Fund, president of Ranson & Company, president of Utility Consultants Inc., and is an officer of several other enterprises.

Mr. Ranson has been a director of the Public Securities Association and Chairman of the Municipal Securities Division of the PSA; co-chairman of Economic Lifelines, an association of groups seeking to improve transportation; and has served as chairman and director of many corporate organizations. He has been prominent in state and national politics since 1968.

Jack Ranson's clients in public finance have included:

- Cameron County Fresh Water Supply District No. 1
- Chanute, Kansas
- Hays, Kansas
- Hutchinson, Kansas
- Hermann, Missouri
- Kansas Municipal Energy Agency
- Kansas Turnpike Authority
- Kansas City, Kansas Board of Public Utilities
- Labette County, Kansas
- Cleveland County, Kansas
- Lucas, Kansas
- McPherson, Kansas
- Mid-States Port Authority
- Neodesha, Kansas
- North Kansas City, Missouri
- Northwest Kansas Municipal Energy Association
- Norwich, Kansas
- Olathe, Kansas
- Overland Park, Kansas
- Reno County, Kansas
- Reno/Sedgwick/Finney Counties, Kansas
- Sedgwick County, Kansas
- Wichita, Kansas



**NationsBank**

NationsBank, N.A.  
Regional Center, VA 22011-1000  
P.O. Box 2000  
Richmond, VA 22011-1000

Account Reference Information  
Account Number: 22 22 1948  
Tax ID Number: 3162625754  
E.F. & C. Electronic  
Statement Period  
INQUIRY through 800-870-8700

## Highlights in Utilities

Banking professionals at Public Finance America, L.L.C. have had the opportunity to participate in creating what have since become familiar elements of public utility financing. Among the groundbreaking concepts which our principals helped develop are:

(1) Rate Stabilization Funds. These monies, set aside from savings in the early years of a bond issue which arise in part due to capitalizing interest, are used to cushion against later rate increases.

(2) Reliability Exchanges. These are power exchanges for the full useful lives of designated generating units, and were designed to increase reliability in cases where public power issuers might make a financial investment in only one plant.

(3) No Adverse Distinction. This principle requires investor-owned utilities to operate and maintain any units where there is co-ownership by public power no less favorably than they treat units where there are no co-owners.

(4) Most Favored Nations. This principle gives public power owners in plants the right to accept or refuse changed contractual provisions which might be offered to others who commit later.

(5) Earn-In. This technique enables public power issuers to buy into generating plants well along in their construction in a way which reduces the penalty of sales taxes and recaptured tax credits.

(6) Innovative Financings. Before they joined PFA, our bankers were the first to offer tax-exempt commercial paper, variable-rate bonds, zero coupon and other deep-discount capital appreciation bonds, and put option bonds to public power issuers.

(7) Prepayments. Our professionals were the first to identify the benefits to issuers from prepaying for the right to output as distinguished from financing physical facilities.

(8) Ratemaking Guidelines. In their earlier careers, PFA bankers negotiated the first rate settlements between municipalities and IOUs which set down guidelines for competitive margins, both with respect to large industrial rates and rates to wholesale competitors, and with respect to the timing of filings for increases.

(9) Sellbacks. Our professionals pioneered the deep sellbacks of power in early years by public power issuers to IOU co-owners, greatly increasing the present value of savings to the issuers.



# NationsBank®

NationsBank, N.A.  
Regional Center, VA2-125-04-01  
P.O. Box 27025  
Richmond, VA 23261-7025

**Account Reference Information**  
Account Number: 232 600 0049  
Tax ID Number: 52-6001944  
E 0 8 C Enclosures 0 55  
Statement Period 0420600  
06/01/97 through 06/30/97

ST MICHAELS UTILITIES COMM  
PO BOX 206  
ST MICHAELS MD 21663

**Customer Service:**  
NationsBank, N.A.  
P.O. Box 27025  
Richmond, Virginia 23261-7025  
1-800-241-5788 Express Service

Page 1 of 1

## Analyzed Business Interest Checking

### Account Summary Information

Statement Period	06/01/97 through 06/30/97	Statement Beginning Balance	245.40
Number of Deposits/Credits	1	Amount of Deposits/Credits	0.30
Number of Withdrawals/Debits	0	Amount of Withdrawals/Debits	0.00
		Statement Ending Balance	245.70
Number of Enclosures	0	Average Ledger Balance	245.00
Number of Days in Cycle	30	Service Charge	0.00

### Interest Information

Amount of Interest Paid	0.30	Interest Paid Year-to-Date	1.91
Annual Percentage Yield Earned		Withholding Year-to-Date	0.00
This Statement Period	1.50%		

### Deposits and Credits

Date Posted	Customer Reference	Amount	Description	Bank Reference
06/30		0.30	Interest Earned	

### Daily Ledger Balances

Date	Balance	Date	Balance
06/01	245.40	06/30	245.70



# NationsBank®

NationsBank, N.A.  
Regional Center, VA2-125-04-01  
P.O. Box 27025  
Richmond, VA 23261-7025

**Account Reference Information**  
Account Number: 232 600 0049  
Tax ID Number: 52-6001944  
E 0 8 C Enclosures 0 55  
Statement Period 0393400  
02/01/97 through 02/28/97

ST MICHAELS UTILITIES COMM  
PO BOX 206  
ST MICHAELS MD 21663

**Customer Service:**  
NationsBank, N.A.  
P.O. Box 27025  
Richmond, Virginia 23261-7025  
1-800-241-5788 Express Service

Page 1 of 1

## Analyzed Business Interest Checking

### Account Summary Information

Statement Period	02/01/97 through 02/28/97	Statement Beginning Balance	244.12
Number of Deposits/Credits	1	Amount of Deposits/Credits	0.30
Number of Withdrawals/Debits	0	Amount of Withdrawals/Debits	0.00
		Statement Ending Balance	244.42
Number of Enclosures	0	Average Ledger Balance	244.00
Number of Days in Cycle	28	Service Charge	0.00

### Interest Information

Amount of Interest Paid	0.30	Interest Paid Year-to-Date	0.63
Annual Percentage Yield Earned This Statement Period	1.61%	Withholding Year-to-Date	0.00

### Deposits and Credits

Date Posted	Customer Reference	Amount	Description	Bank Reference
02/28		0.30	Interest Earned	

### Daily Ledger Balances

Date	Balance	Date	Balance
02/01	244.12	02/28	244.42



# NationsBank®

NationsBank, N.A.  
Regional Center, VA2-125-04-01  
P.O. Box 27025  
Richmond, VA 23261-7025

**Account Reference Information**  
Account Number: 232 600 0049  
Tax ID Number: 52-6001944  
E 0 8 C Enclosures 0 55  
Statement Period 0329600  
03/01/97 through 03/31/97

ST MICHAELS UTILITIES COMM  
PO BOX 206  
ST MICHAELS MD 21663

**Customer Service:**  
NationsBank, N.A.  
P.O. Box 27025  
Richmond, Virginia 23261-7025  
1-800-241-5788 Express Service

Page 1 of 1

## Analyzed Business Interest Checking

### Account Summary Information

Statement Period	03/01/97 through 03/31/97	Statement Beginning Balance	244.42
Number of Deposits/Credits	1	Amount of Deposits/Credits	0.33
Number of Withdrawals/Debits	0	Amount of Withdrawals/Debits	0.00
		Statement Ending Balance	244.75
Number of Enclosures	0	Average Ledger Balance	244.00
Number of Days in Cycle	31	Service Charge	0.00

### Interest Information

Amount of Interest Paid	0.33	Interest Paid Year-to-Date	0.96
Annual Percentage Yield Earned		Withholding Year-to-Date	0.00
This Statement Period	1.60%		

### Deposits and Credits

Date Posted	Customer Reference	Amount	Description	Bank Reference
03/31		0.33	Interest Earned	

### Daily Ledger Balances

Date	Balance	Date	Balance
03/01	244.42	03/31	244.75



# NationsBank®

NationsBank, N.A.  
Regional Center, VA2-125-04-01  
P.O. Box 27025  
Richmond, VA 23261-7025

**Account Reference Information**  
Account Number: 232 600 0049  
Tax ID Number: 52-6001944  
E 0 8 C Enclosures 0 55  
Statement Period 0314800  
04/01/97 through 04/30/97

ST MICHAELS UTILITIES COMM  
PO BOX 206  
ST MICHAELS MD 21663

**Customer Service:**  
NationsBank, N.A.  
P.O. Box 27025  
Richmond, Virginia 23261-7025  
1-800-241-5788 Express Service

Page 1 of 1

## Analyzed Business Interest Checking

### Account Summary Information

Statement Period	04/01/97 through 04/30/97	Statement Beginning Balance	244.75
Number of Deposits/Credits	1	Amount of Deposits/Credits	0.32
Number of Withdrawals/Debits	0	Amount of Withdrawals/Debits	0.00
		Statement Ending Balance	245.07
Number of Enclosures	0	Average Ledger Balance	244.03
Number of Days in Cycle	30	Service Charge	0.00

### Interest Information

Amount of Interest Paid	0.32	Interest Paid Year-to-Date	1.28
Annual Percentage Yield Earned		Withholding Year-to-Date	0.00
This Statement Period	1.60%		

### Deposits and Credits

Date	Customer	Amount	Description	Bank
Posted	Reference			Reference
04/30		0.32	Interest Earned	

### Daily Ledger Balances

Date	Balance	Date	Balance
04/01	244.75	04/30	245.07





## The Commissioners of St. Michaels

SETTLED 1670-80  
INCORPORATED 1804

P.O. BOX 206  
ST. MICHAELS, MARYLAND 21663-0206

(410) 745-9535  
FAX (410) 745-3463  
TDD/TTY RELAY 1-800-735-2258

### ST. MICHAELS UTILITIES COMMISSION

September 2, 1994

Peter F. Clark, Esquire  
Assistant General Counsel  
Delmarva Power and Light Co.  
800 King Street  
P.O. Box 231  
Wilmington, DE 19899

Dear Peter:

In anticipation of our next negotiation please provide us the following information pursuant to section 7.2 of our lease agreement:

1. A complete inventory of all additions and improvements made to the St. Michaels franchise since the inception of the lease grouped by FERC account numbers.
2. The current net book value of these assets.

Sincerely,

Harold S. Bassett  
President, St. Michaels Utilities Commission



Peter Clarke)

In anticipation of our next negotiation please provide us the following information pursuant to ~~the~~ Section 7.2 of our lease agreement:

1. a complete inventory of all additions & improvements made to the STM's franchise since the inception of the ~~the~~ lease, ~~not~~ grouped by



STATE OF MARYLAND



BRYAN G. MOORHOUSE

General Counsel

FELICIA L. OREER

Executive Secretary

GREGORY V. CARMICHAEL

Executive Director

DESIGN SURVEY

Commission

CLAUDE W. LIDON

E. MASON HENRICKSON

SUSANNE BROGAN

GERALD L. THORNTON

FENC Account numbers.

2. The <sup>current</sup> net book value  
of these assets.

Thank you.

Sincerely

B

June 9, 1999

Pres. STM Util Commission

113 Baptist Street  
Salisbury, MD 21803-0044

Dear Mr. Banks:

Enclosed is a copy of Order No. 75277 issued today by the Commission in the above-captioned proceeding.

Also enclosed is an Admission of Service form, which we ask you to complete and return to the Commission.

Very truly yours,

Catherine M. Moorhouse

Catherine M. Moorhouse  
Administrative Officer

Enclosures



STATE OF MARYLAND

COMMISSIONERS

GLENN F. IVEY  
CHAIRMAN

CLAUDE M. LIGON  
E. MASON HENDRICKSON  
SUSANNE BROGAN  
GERALD L. THORPE



BRYAN G. MOORHOUSE  
GENERAL COUNSEL

FELECIA L. GREER  
EXECUTIVE SECRETARY

GREGORY V. CARMEAN  
EXECUTIVE DIRECTOR

PUBLIC SERVICE COMMISSION

WILLIAM DONALD SCHAEFER TOWER  
6 ST. PAUL STREET  
BALTIMORE, MARYLAND 21202-6806  
(410) 767-8000  
FAX NUMBER (410) 333-6495

IN THE MATTER OF THE JOINT \*  
APPLICATION OF DELMARVA POWER \*  
& LIGHT COMPANY (D/B/A CONECTIV \*  
POWER DELIVERY) AND THE \*  
COMMISSIONERS AND UTILITIES \*  
COMMISSION OF THE TOWN OF ST. \*  
MICHAELS, MARYLAND FOR \*  
APPROVAL OF A REVISION IN THE \*  
ANNUAL RENT FOR CERTAIN LEASED \*  
FACILITIES AND OTHER LEASE \*  
AMENDMENTS. \*

CASE NO. 8818

June 9, 1999

Edward G. Banks, Jr., Esquire  
Banks, Nason & Hickson, P.A.  
P. O. Box 44  
113 Baptist Street  
Salisbury, MD 21803-0044

Dear Mr. Banks:

Enclosed is a copy of Order No. 75277 issued today by the Commission in the above-captioned proceeding.

Also enclosed is an Admission of Service form, which we ask you to complete and return to the Commission.

Very truly yours,

*Catherine M. Moorhouse*

Catherine M. Moorhouse  
Administrative Officer

Enclosures



STATE OF MARYLAND  
PUBLIC SERVICE COMMISSION

ORDER NO. 75277

IN THE MATTER OF THE JOINT  
APPLICATION OF DELMARVA POWER  
& LIGHT COMPANY (D/B/A CONECTIV  
POWER DELIVERY) AND THE  
COMMISSIONERS AND UTILITIES  
COMMISSION OF THE TOWN OF ST.  
MICHAELS, MARYLAND FOR  
APPROVAL OF A REVISION IN THE  
ANNUAL RENT FOR CERTAIN LEASED  
FACILITIES AND OTHER LEASE  
AMENDMENTS.

BEFORE THE  
PUBLIC SERVICE COMMISSION  
OF MARYLAND

CASE NO. 8818

By Order No. 65413 dated September 4, 1981 in Case No. 7566, the Commission gave approval to Delmarva Power & Light Company ("Delmarva") to lease from the Commissioners and Utilities Commission of the Town of St. Michaels, Maryland (referred to collectively as "St. Michaels" or "the Town") its electric utility system.

Two joint applications to revise the annual rent were subsequently approved by the Commission. By Order No. 67579 dated December 15, 1986 in Case No. 8008, the Commission approved an increase in the annual rent to \$260,000 per year. By Order Nos. 70221 and 70235 dated November 25, 1992 and December 10, 1992, respectively, in Case No. 8494, the Commission approved a second increase in the annual rent to \$310,000 per year.

On May 7, 1999, Delmarva and the Town filed with the Commission a joint application for approval of a revision in the annual rent for certain leased facilities and other lease amendments. The Parties to the joint application indicate that the lease amendment is the product of lengthy negotiations during 1996, 1997 and 1998.



ADMISSION OF SERVICE

BEFORE THE PUBLIC SERVICE COMMISSION

OF THE STATE OF MARYLAND

June 18, 1999

19 99

I/We Edward G. Banks, Jr., Esquire, Banks, Nason & Hickson, P.A.,

P.O. Box 44, 113 Baptist Street, Salisbury, Maryland 21803-0044

hereby admit service on this date of one copy of  
Order No. 75277, Case No. 8818, of the Public Service Commission  
of Maryland, dated 6/9/99, in the matter of the Joint  
Application of Delmarva Power & Light Company (D/B/A Conective Power  
Delivery) and The Commissioners and Utilities Commission of The Town of  
St. Michaels, Maryland for approval of a revision in the annual rent for  
certain leased faciities and other lease amendments

(Sign Here)



EDWARD G. BANKS, JR.



BEFORE THE PUBLIC SERVICE COMMISSION

OF THE STATE OF MARYLAND

IN THE MATTER OF THE JOINT APPLICATION OF )  
DELMARVA POWER & LIGHT COMPANY (d/b/a )  
CONECTIV POWER DELIVERY) AND THE )  
COMMISSIONERS AND UTILITIES COMMISSION ) Case No. \_\_\_\_\_  
OF THE TOWN OF ST. MICHAELS, MARYLAND, )  
FOR APPROVAL OF A REVISION IN THE ANNUAL RENT )  
FOR CERTAIN LEASED FACILITIES AND )  
OTHER LEASE AMENDMENTS )

JOINT APPLICATION

Delmarva Power & Light Company (d/b/a Conectiv Power Delivery) ("Delmarva" or the "Company") and the Commissioners and Utilities Commission of the Town of St. Michaels, Maryland (collectively, "St. Michaels" or the "Town"), respectfully request Commission approval of (i) a revision in amount and form of the Annual Rent paid by Delmarva to the Town for certain Town-owned electric system assets leased from St. Michaels under a lease approved by the Commission in 1981 (the "Lease," attached as Exhibit A) and (ii) other amendments to the Lease. The proposed revision in the Annual Rent and other amendments to the Lease are set forth in the Lease Amendment attached as Exhibit B (the "Lease Amendment").

In connection with this joint request, Delmarva and St. Michaels respectfully represent:



## I. THE PARTIES

1. Delmarva is a corporation organized and existing under the laws of the State of Delaware and the Commonwealth of Virginia. The Company is a wholly-owned subsidiary of Conectiv and is authorized to do business as a public utility in the State of Maryland.

2. St. Michaels owns an electric system serving customers in the Town and certain adjacent areas (the "St. Michaels Service Territory"). Prior to 1981, the Town's electric system was operated and maintained under the overall supervision of the St. Michaels Utilities Commission, and the Company sold electricity to the Town at wholesale rates approved by the Federal Energy Regulatory Commission.

3. At all relevant times, both Delmarva and St. Michaels were (and they remain) public utilities regulated by the Commission.

## II. BACKGROUND

4. In 1981, after evidentiary hearings on a joint application submitted by Delmarva and St. Michaels, the Commission approved the Lease in Order No. 65413 in Case No. 7566 (Exhibit C). Since that time, Delmarva has provided electric service to customers in the St. Michaels Service Territory and has made and owns improvements to the Town's electric system. About 3,500 customers are currently served by the electric system in the St. Michaels Service Territory.



5. Under the Lease, Delmarva leased certain Leased Facilities constituting the Town's entire electric system from St. Michaels for twenty-five years at an initial Annual Rent of \$230,000 per year.

6. The Annual Rent is subject to revision at five-year intervals, as set forth in Article 2 of the Lease.

7. In 1986, the Commission approved an increase in the Annual Rent to \$260,000 per year in Order No. 67579 in Case No. 8008. (Exhibit D).

8. In 1992, the Commission approved an increase in the Annual Rent to \$310,000 per year in Order Nos. 70221 and 70235 in Case No. 8494. (Exhibits E and F respectively). That Annual Rent revision was not negotiated by Delmarva and St. Michaels; it was the recommendation of an arbitrator selected by the Company and the Town to resolve their dispute over the amount and effective date of any Annual Rent revision.

### III. THE LEASE AMENDMENT

9. During the Spring of 1996, a consulting firm engaged by St. Michaels audited Delmarva's operation of the Town's electric system under the Lease and, upon completion of this records-type audit, provided a report to the Town.

10. Company and Town officials also met on numerous occasions in 1996, 1997, and 1998 to negotiate a revision to the Annual Rent and, at the request of St. Michaels, to revise the Lease in anticipation of the end of the Lease term on October 15, 2006.

11. The Lease Amendment revises the Lease. In summary:



A. The opportunity for the Town or Company to negotiate a revision to the Annual Rent in 2001 is eliminated.

B. The Lease will expire on the same date provided in the original lease (i.e., on October 15, 2006).

C. Annual Rent will be paid to the Town (i) in cash payments of \$150,000 per year, subject to annual price index-based adjustments, and (ii) in the form of a credit guaranteed to total \$4.8 million on October 15, 2006. At the end of the Lease term, at the Town's election, this Annual Rent credit will be (i) applied towards the Town's purchase of Delmarva-provided electric system improvements or (ii), if the Town elects to sell the electric system to the Company, paid to the Town in cash.

D. The Town may elect to purchase Delmarva-provided electric system improvements to the Town's electric system at the end of the Lease term for the lesser of (i) the then-net book value of those Delmarva-provided improvements or (ii) \$8.4 million.

E. Because of their potential to affect the purchase price for Delmarva-provided electric system improvements, the Company's post-2001 capital improvements to the Town's electric system are capped (using at a 5-year rolling average).

F. Delmarva will provide more detailed annual reports to St. Michaels. Delmarva and St. Michaels will share the cost of records-type audits conducted in 2000 and 2006.

G. Delmarva may close the St. Michaels District Office (and now has done so).



H. St. Michaels must notify Delmarva by October 15, 2002, if the Town intends to sell Town-owned electric system assets to the Company. Failure to give this notice obligates the Town to purchase the Delmarva-provided electric system improvements.

I. The Delmarva purchase price for Town-owned electric system assets will be the greater of (i) \$1.00 or (ii) the then-net book value of those Town-owned assets. In addition, the Town would be paid the \$4.8 million Annual Rent credit, in cash, if the Company were to purchase the Town-owned electric system assets. Delmarva also must be included in any solicitation for the sale, lease, or operation of the Town's electric system and in any Town electric energy or capacity solicitations.

12. The Commissioners and Utilities Commission of the Town of St. Michaels, Maryland, have each duly authorized the Lease Amendment. (Exhibit G).

13. Delmarva's Board of Directors has duly authorized the Lease Amendment. (Exhibit H).

14. Delmarva and St. Michaels respectfully submit that Commission approval of the Lease Amendment is in the public interest. In summary:

A. The Lease Amendment is the product of lengthy negotiations occurring during 1996, 1997, and 1998.

B. Both Delmarva and St. Michaels were represented by counsel during these negotiations, in which knowledgeable Company and Town representatives also were involved.

C. The Lease Amendment has been duly authorized by the appropriate Company and Town governing bodies.




D. The Lease Amendment conserves scarce Company, Town, and Commission resources by eliminating the opportunity for St. Michaels or Delmarva to propose a revision in the Annual Rent in 2001.

E. The Lease Amendment definitively resolves significant end-of-Lease issues raised by either (i) the Town's purchase of Delmarva-provided electric system improvements or (ii) Delmarva's purchase of the Town-owned electric system assets, such as when notice of the Town's intent to purchase the Delmarva-provided electric system improvements must be given and the purchase prices to be paid under different scenarios.

F. Nothing in the Lease Amendment will adversely affect electric service to customers in the St. Michaels Service Territory.

G. Delmarva and St. Michaels jointly support Commission approval of the Lease Amendment.

  
Edward G. Bandy, Jr.  
Bandy, Nease & Williams, P.A.  
P.O. Box 44 - 111 Anglin Street  
Sallyburg, MD 21873-0044  
410/545-4544

Counsel for  
The Commissioners of St. Michaels, Maryland and  
St. Michaels Utilities Commission

Handwritten: May 2, 1999

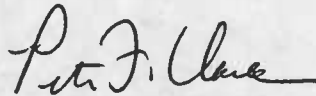


#### IV. PRAYER FOR RELIEF

WHEREFORE, Delmarva Power & Light Company and the Commissioners and Utilities Commission of St. Michaels, Maryland, respectfully request that the Commission enter an order approving the Lease Amendment.

Respectfully submitted,

By



Peter F. Clark  
Counsel for  
Delmarva Power & Light Company  
P. O. Box 231 -- 800 King Street  
Wilmington, DE 19899  
302/429-3069

By



Edward G. Banks, Jr.  
Banks, Nason & Hickson, P.A.  
P. O. Box 44 -- 113 Baptist Street  
Salisbury, MD 21803-0044  
410/546-4644  
Counsel for  
The Commissioners of St. Michaels, Maryland and  
St. Michaels Utilities Commission

Dated:

May 7<sup>th</sup> 1999



FRONT







JANUARY 14, 1993

In preparation for their attendance at a meeting with the Town Commissioners, the St. Michaels Utilities Commission met at 9:30 AM on Thursday, January 14, 1993 in the Town Office Meeting Room. Members present were Commissioners Harold Bassett, Alex Spencer and William A. Morse, and Secretary-Treasurer Roberta H. Marshall. Also present were Town Clerk/Manager Andrew Hollis and Assistant Town Manager Jean Weisman.

The purpose of the meeting was to finalize details of the Utilities Commissioners' recommendations to the Town Commissioners regarding the Sinking Fund.

Since the discussion concerned investment of the Sinking Fund, a motion was made by Alex Spencer to adjourn to executive session. The motion was seconded by Mr. Morse and passed by unanimous vote.

During the session, points discussed included the investment of the present fund in Zero Coupon Bonds, the handling of monthly rent payments to be received, and any necessary amendments to the Town Charter which would ensure the fiscal and actuarial soundness of the Sinking Fund when the lease ends in 2006.

The bids received from local banks for the investment of the fund were reviewed. On a motion by Mr. Morse, seconded by Mr. Spencer, the board unanimously agreed to recommend that Maryland National Bank's quote to invest the fund be accepted by the Town Commissioners. The quote of \$4,825,000 was slightly better than the quote from Talbot Bank. St. Michaels Bank informed Mr. Bassett that they were not interested in the transaction. A copy of the quotes given to Mr. Bassett by phone is attached to these minutes.

The possibility of undertaking a study to look at the options available to the Town before the next negotiation session in 1996 was also discussed.

The meeting was then adjourned to await the arrival of the Town Commissioners.



Roberta H. Marshall, Secretary-Treasurer



Meeting of Town Commissioners, January 14, 1993

The Utilities Commissioners attended a meeting of the Town Commissioners, held in executive session, immediately after the Utilities meeting on January 14, 1993. Present were Commissioners John L. Dunlap, Gerald L. Edmondson, Donald M. Healy, Victor H. MacSorley and Fred M. Mowbray. All persons who had previously attended the Utilities meeting were also present.

Commission President Edmondson called the meeting to order at 10:05 AM. He immediately turned the floor over to Mr. Bassett.

Mr. Bassett explained the purpose of the meeting. He stated that all three local banks were called for quotes on the investment of the Sinking Fund in Zero Coupon Bonds, and the quote from Maryland National Bank was best with a yield of \$4,825,000 at the end of the period. He stated that the Utilities Commissioners recommended that the Town place the investment through Maryland National Bank.


Mr. Bassett added that the Utilities Commissioners also recommend that the rent monies received be invested monthly in an interest-bearing account, after an adjustment for the current budget figure, in order to earn as much interest as possible. At the end of the year this money can be adjusted as necessary and invested in a more permanent manner.

In regard to the Charter amendment, Mr. Bassett stated that the Utilities Commissioners request that the Commissioners amend the Charter to ensure the achievement of fiscal and actuarial soundness of the Fund by the expiration date of the lease in 2006. He suggested that the Commissioners turn this matter over to the Town Attorney for his advice and comments.

Mr. Bassett also spoke of the advisability of a study, to be done before the next lease negotiations in 1996, to look at the options available to the Town. This would include the pros and cons of condemning the lease, and might prove a valuable tool in the next negotiations. After a thorough discussion, the Utilities Commissioners were directed to submit a scope of work for the review of the Town Commissioners.

The Town Commissioners unanimously agreed that Maryland National Bank will handle the purchase of the Zero Coupon Bonds. The investment will take place at once.

The Utilities Commission and Mrs. Weisman were excused from the meeting at 11:05 AM.

  
Roberta H. Marshall, Secretary-Treasurer



# TELECONS ON RATES FOR ZERO COUPON BOND INVESTMENTS

1. ST MICHAELS BANK 4pm

1/13/93 FROM KATHY SADLER:  
IVAN SAYS STB DOES NOT WISH  
TO BID.

2. PAT MORSE TALBOT BANK

1/13/93 1pm

7.609% YIELD  
OF \$4,820,000

3. KEN FISCHBACH MD NAT'L

1/13/93 5pm

7.61% YIELD  
OF \$4,825,000

"ZERO" AMOUNT INVESTMENT \$1.75 MILLION  
TO AUGUST 15, 2006.

JHS assets 1/14/93







JUNE 10, 1993

A meeting of the St. Michaels Utilities Commission was held on Thursday, June 10, 1993 in the Town Office Meeting Room. Those present were Commissioners Harold Bassett, Alex Spencer and William A. Morse. Also in attendance were Elmer Short and Larry Wood, from Delmarva, Town Clerk/Manager Andrew Hollis, Assistant Town Manager Jean Weisman, and Roberta H. Marshall.

The meeting was called to order at 10:45 A.M. by Mr. Bassett. The reading of the minutes of the last meetings was postponed to the next meeting. Mr. Bassett then noted that the purpose of the meeting was to listen to a presentation from Mr. Short, Manager for Resale Services for Delmarva, and turned the floor over to him.

Mr. Short explained that he had been contacted by Roger Judd, from Easton Utilities, regarding a small portion of the St. Michaels franchise. At the present time the Town of Easton has tentative plans to enlarge an existing industrial park on the Easton by-pass which is adjacent to the St. Michaels franchise. A portion of the property, now owned by Wade Dudrow, is actually in the St. Michaels territory. Mr. Short stated that Easton has offered to trade some portion of their franchise for the section they would need to enlarge the industrial park. He added that Easton could probably force the trade if they took the matter before the Maryland Public Service Commission. Mr. Short stated that he had talked to the Chief Engineer of the PSC about a month ago, and had been told that the PSC prefers that only one utility serve developments or industrial parks due to safety reasons, customer convenience, cost of service, etc.

Mr. Short informed the Board that the addition to the industrial park is tentative, but brought detailed drawings that showed the property in question and portions of the Easton franchise that might be available in a trade.

The group then thoroughly discussed the issues at hand, as well as the location of portions of the Easton franchise which might be desirable. Mr. Hollis was concerned that Easton might want more of the St. Michaels franchise at a later date, but Mr. Short stated that it would be unlikely that the PSC would grant them approval to take it.

Mr. Wood suggested that the Commissioners might want to visit the Dudrow Farm and look at the area involved. Mr. Short was informed that he will be notified of the Commission's decision as soon as it is made.



It was noted that Yale Underwear, the prospective tenant for the property, will not make a final decision until at least August 6, so the Commissioners decided that they could postpone their decision until looking further into the matter. In the meantime, Mr. Hollis will get information on zoning in the boundary areas of the franchise. Mr. Bassett will contact Roger Judd by phone to inform him that the Commissioners are considering the matter and will send a letter to that effect if it is thought necessary. The Commissioners also decided that they will ask former Utilities Manager Ray Kilmon to give them a tour of the St. Michaels franchise boundary lines if it becomes necessary.

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



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Roberta H. Marshall, Secretary-Treasurer



FEBRUARY 1, 1994

A meeting of the St. Michaels Utilities Commission was held in the Town Office Meeting Room at 11:15 AM on Tuesday, February 1, 1994. Members present were Commissioners Harold Bassett, Alex Spencer, William A. Morse and Secretary-Treasurer Marshall. Town Manager Andrew Hollis and Assistant Town Manager Jean Weisman also attended the meeting. Vice President Bassett presided.

The minutes of the meetings of December 14, 1992, January 14, 1993 and June 10, 1993 were approved as written and circulated.

The status of the investment of the Sinking Fund was reviewed. Mrs. Weisman presented the Commission with a written report on the investment, which is attached to these minutes. She reported that the initial investment in Zero Coupon Bonds was made immediately after the meeting with the Town Commissioners on January 14, 1993, and added that regular monthly transfers to the Government Investment Pool Account have been made since then. Mr. Bassett suggested that it might be advisable to check with Mr. Fischbach at Maryland National Bank to see if any modifications should be made to the original investment plan. It was decided that Mr. Bassett and Mrs. Weisman would contact Mr. Fischbach after the meeting. Mr. Hollis stated that the Utilities Commission's strategy for investment of the fund is being followed to the letter. In answer to a question from Mrs. Weisman concerning future investment in Zero Coupon Bonds, the Commissioners indicated that it was their original intent that future purchases be made through Maryland National Bank, and it was their understanding that the Town Commissioners had approved that plan. The purchase of additional bonds will also be discussed with Mr. Fischbach. The results of that phone call will be made an addendum to these minutes.

Mr. Bassett then turned to a discussion of the events following the meeting with Larry Wood and Elmer Short on June 10, 1993 concerning the Easton annexation of the Dudrow property for an addition to an industrial development. He stated that he talked to Roger Judd of Easton Utilities on two occasions: first, in regard to the Utilities Commission's willingness to meet with the Easton board, and later when he was told that the Town of Easton had indeed annexed the property. Since Easton's prospective tenant for the property moved elsewhere, there is no urgency in discussing a trade of franchise area with Easton, but it will be a matter for future business. The Commissioners agreed that it would be more advantageous to talk of a trade at a future point in time rather than at present. Motion was made by Mr. Spencer, seconded by Mr. Morse, and passed unanimously, to wait until such time as Easton is in need of the trade to act further on the matter.







Mr. Bassett then spoke of a phone call he had received from Wally Duncan, the attorney for St. Michaels during the arbitration of the rent payment with Delmarva. Mr. Duncan said he had been contacted by the editor of the American Public Power Association magazine, regarding his interest in collaborating on an article about his experiences during the arbitration of the St. Michaels/Delmarva lease. Mr. Duncan refused the request, but added that he had been requested to provide the magazine with a copy of the original lease agreement and a copy of the arbitrator's decision. Mr. Bassett told Mr. Duncan that he could have no objection to that since both documents are matters of public record. Mr. Spencer and Mr. Morse agreed.

In a related matter, Mr. Bassett has talked to William Corkran about his ideas on a possible strategy for dealing with Delmarva during the next lease re-negotiations in 1996. Mr. Corkran suggested that he host an informal get-together with the Commissioners and APPA officers Paul Frye and Larry Hobart to discuss the matter. It was decided to accept Mr. Corkran's offer, and Mr. Bassett will contact him as soon as possible.

There was discussion about the possible use of the arbitrator's decision in the last negotiation in any future hearing that might be necessary before the Maryland Public Service Commission. The decision granted all points in favor of St. Michaels and agreed with all the St. Michaels calculations, but then picked an entirely different amount for the rent increase.

Mr. Bassett has also talked to John Wilson regarding the scope of work involved with a study of condemnation proceedings. Mr. Wilson has agreed to meet with the Town Commissioners, free of charge, on a Friday or Monday in March. It was decided that Mr. Hollis and Mr. Bassett will arrange for the meeting in March.

It was noted that the scheduled 1993 annual meeting with Delmarva did not take place. Since an annual meeting is mentioned in the lease, it was thought that it is important that it is held. The Commissioners noted that they will all be available for a meeting during the week of February 14, and Mrs. Marshall was instructed to schedule it with Larry Wood of Delmarva.

The importance of having meetings on a more regular schedule was briefly discussed.

There was also a discussion about likely happenings when the lease is terminated in 2006, and the necessity for the elected officials of the Town to be aware of them.







Officers for the coming year were then elected. On a motion by Mr. Spencer, seconded by Mr. Morse, Harold Bassett was elected President for 1994. On a motion by Mr. Morse, seconded by Mr. Basset, Mr. Spencer was elected Vice president for 1994. Mrs. Marshall was appointed Secretary-Treasurer of the group.

Following a short discussion of all the help that Mr. Corkran has been to the Town of St. Michaels in the past, the meeting was adjourned at 12:30 PM.



Roberta H. Marshall, Secretary-Treasurer







Town of St Michaels  
Sinking Fund Strategy







Town of St Michaels  
Sinking Fund Strategy

Goal: To provide maximum dollar value in September 2006 for accumulated funds consisting of Utility Lease revenue minus Annual Expenses.

Strategy:

Part I.

Make an initial purchase of a government security with accumulated Sinking Fund cash to mature in 2006.

Note: This initial phase was completed on 1/20/93 purchasing a US Zero coupon bond costing \$1,774,152.50 to mature on 8/15/06 @ \$4,825,000.

Part II.

At the completion of the calendar year a purchase of a government security (preferably a zero coupon bond) will be executed with accumulated funds to mature on or around 8/15/06. This should continue from 1993 thru 2001. It is currently the intention of the commission to leave \$100,000 on deposit in a demand account with a local banking institution at all times.

Part III.

At the completion of the calendar year a purchase of a government security (preferably a treasury note) will be executed with accumulated funds to mature on or around 8/15/06. This should continue from 2002 thru 2006.

Note: Attached is a financial model which outlines this strategy and applies interest rate assumptions and expense/income forecasts to obtain an estimated future value.







St. Michaels  
Case B  
Scenario #4

Current Sinking Fund Balance \$1,774,000

Initial Transaction

GNMA Purchase 15 yr @ 6.50% \$0  
Zero Coupon Purchase \$1,774,000

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	\$1,774,000		7.00%		\$0	\$0			\$4,825,000
1993	\$94,000		7.00%	\$310,000	\$0	\$0	\$120,000	\$100,000	\$555,288
1994	\$188,000		7.00%	\$310,000	\$0	\$0	\$126,000	\$100,000	\$504,844
1995	\$181,700		7.00%	\$310,000	\$0	\$0	\$132,300	\$100,000	\$458,072
1996	\$175,085		7.00%	\$310,000	\$0	\$0	\$138,915	\$100,000	\$414,716
1997	\$218,139		6.50%	\$360,000	\$0	\$0	\$145,861	\$100,000	\$451,986
1998	\$210,846		6.50%	\$360,000	\$0	\$0	\$153,154	\$100,000	\$412,178
1999	\$203,189		6.50%	\$360,000	\$0	\$0	\$160,811	\$100,000	\$375,053
2000	\$195,148		6.50%	\$360,000	\$0	\$0	\$168,852	\$100,000	\$340,435
2001	\$186,705		6.50%	\$360,000	\$0	\$0	\$177,295	\$100,000	\$308,168
2002		\$227,841	6.00%	\$410,000	\$13,670	\$0	\$186,159	\$100,000	\$227,841
2003		\$232,203	6.00%	\$410,000	\$27,603	\$0	\$195,467	\$100,000	\$232,203
2004		\$236,362	6.00%	\$410,000	\$41,784	\$0	\$205,241	\$100,000	\$236,362
2005		\$240,282	6.00%	\$410,000	\$56,201	\$0	\$215,503	\$100,000	\$240,282
2006		\$243,923	6.00%	\$410,000	\$70,837	\$0	\$226,278	\$100,000	\$243,923
TOTAL:								\$100,000	\$9,897,187
COMBINED TOTAL:									\$100,000
									\$9,997,187

Assumptions:

Annual expenses: \$120,000 increasing 5% per year.  
Income: \$310,000 increasing by \$50,000 in 1997 & 2002  
Projected 15 yr Value. \$9,997,187  
Excess Balance: Earns a rate of 4%.

St. Michaels  
Case B  
Scenario #4







**MNB BROKERAGE ALTERNATIVE, INC.**

A subsidiary of Maryland National Bank

An MNC Financial Company

P.O. Box 753  
Brooklandville, MD 21022TOWN OF ST MICHAELS SINKING FUND  
P.O. BOX 206  
ST. MICHAELS MD 21663

PERIOD	PAGE
09/30/93-12/31/93	1
SQC SEC/TAX ID	ACCT NO
52-6000805	30325535

OFFICE	A/E
51M	4130

YOUR REPRESENTATIVE: KENNETH FISHBACH 800-451-1723

INVESTMENT PRODUCTS OFFERED ARE NOT FDIC INSURED, ARE NOT OBLIGATIONS OR  
GUARANTEED BY MNB BROKERAGE ALTERNATIVE, INC., MARYLAND NATIONAL BANK,  
AMERICAN SECURITY BANK, N.A. OR ANY OF THEIR AFFILIATES, AND MAY  
INVOLVE INVESTMENT RISK INCLUDING THE POSSIBLE LOSS OF PRINCIPAL.

**A C C O U N T   V A L U E**

DESCRIPTION	MARKET VALUE	% PORTFOLIO
BONDS - GOVERNMENT	2,164,832.75CR	100.0
VALUE	2,164,832.75CR	
NET VALUE LAST PERIOD	2,204,349.50CR	
PERCENT CHANGE	1.8 DECREASE	

**E A R N I N G S   S U M M A R Y**

DESCRIPTION	THIS PERIOD	YEAR-TO-DATE

**Y O U R   P O R T F O L I O   S U M M A R Y**

ACCOUNT TYPE	SYMBOL	QUANTITY	DESCRIPTION	CURRENT PRICE	MARKET VALUE	EST ANNUAL INCOME	EST YLD
			BONDS - GOVERNMENT				
	STRIP 081506	4,825,000	STRIPS ON U S TSYS SECS GENERIC T INT PMT 08-15-2006 0% 08/15/06	44.867	2,164,832.75		

END OF STATEMENT







**MERCANTILE-SAFE DEPOSIT & TRUST COMPANY**

Baltimore, Maryland 21201  
INVESTMENT ANALYSIS

ACCOUNT NO. PAGE NO.

68

INVESTMENT ADVISOR FOR THE  
COMM. OF ST. MICHAELS - SINKING FUND  
- MLGIP

51009-2 1

TRUST DIVISION

[illegible]







**MARYLAND LOCAL GOVERNMENT INVESTMENT POOL**  
**1993 DAILY RATES NET OF FEE (All Rates Are Rounded)**

	JAN	FEB	MAR	APR	MAY	JUN	JUL	AUG	SEP	OCT	NOV	DEC
1	3.28	3.17	3.28	3.12	2.99	3.16	3.10	3.07	3.16	3.09	3.11	3.10
2	3.28	3.15	3.19	3.08	2.99	3.07	3.06	3.22	3.09	3.09	3.09	3.10
3	3.28	3.28	3.17	3.08	3.02	3.03	3.06	3.12	3.03	3.09	3.05	3.07
4	3.36	3.12	3.04	3.08	3.00	2.98	3.06	3.21	3.03	3.07	3.06	3.07
5	3.45	3.02	3.03	3.08	2.97	2.98	3.06	3.10	3.03	3.06	3.03	3.07
6	3.41	3.02	3.03	3.05	2.96	2.98	3.12	3.03	3.03	3.06	3.03	3.12
7	3.31	3.02	3.03	3.02	2.94	3.08	3.22	3.03	3.09	3.04	3.03	3.08
8	3.16	3.05	3.05	3.00	2.94	3.04	3.11	3.03	3.08	2.99	3.08	3.06
9	3.16	3.03	3.03	3.00	2.94	3.03	3.07	3.09	3.07	2.99	3.08	3.08
10	3.16	3.00	3.02	3.00	2.99	3.04	3.07	3.05	3.04	2.99	3.10	3.07
11	3.18	3.01	3.01	3.00	2.99	3.01	3.07	3.03	3.04	2.99	3.10	3.07
12	3.14	3.02	3.01	3.07	3.08	3.01	3.11	3.05	3.04	3.10	3.05	3.07
13	3.09	3.02	3.01	3.07	2.98	3.01	3.08	3.03	3.10	3.13	3.05	3.11
14	3.09	3.02	3.01	3.08	2.95	3.04	3.08	3.03	3.06	3.03	3.05	3.11
15	3.11	3.02	3.13	3.08	2.95	3.05	3.09	3.03	3.14	3.02	3.14	3.13
16	3.11	3.29	3.08	2.98	2.95	3.04	3.06	3.24	3.07	3.02	3.11	3.12
17	3.11	3.29	3.06	2.98	3.16	3.04	3.06	3.13	3.02	3.02	3.08	3.11
18	3.11	3.07	3.05	2.98	3.04	3.00	3.06	3.17	3.02	3.07	3.08	3.11
19	3.22	3.01	3.00	3.02	2.96	3.00	3.11	3.09	3.02	3.05	3.07	3.11
20	3.42	3.01	3.00	2.98	2.96	3.00	3.11	3.04	3.08	3.05	3.07	3.14
21	3.21	3.01	3.00	2.97	2.95	3.06	3.17	3.04	3.09	3.04	3.07	3.12
22	3.05	3.05	3.01	3.02	2.95	3.04	3.11	3.04	3.10	3.05	3.10	3.14
23	3.05	3.00	3.02	2.97	2.95	3.14	3.07	3.08	3.07	3.05	3.09	3.13
24	3.05	2.99	3.01	2.97	3.05	3.06	3.07	3.06	3.01	3.05	3.11	3.13
25	3.13	3.02	3.02	2.97	3.05	3.03	3.07	3.05	3.01	3.09	3.11	3.13
26	3.12	3.07	3.04	3.04	3.20	3.03	3.12	3.08	3.01	3.10	3.08	3.13
27	3.09	3.07	3.04	3.04	3.04	3.03	3.10	3.05	3.08	3.11	3.08	3.16
28	3.07	3.07	3.04	3.06	2.98	3.05	3.08	3.05	3.10	3.06	3.08	3.15
29	3.04		3.17	3.00	2.98	3.09	3.08	3.05	3.16	3.04	3.12	3.11
30	3.04		3.15	2.99	2.98	3.18	3.07	3.13	3.17	3.04	3.14	3.11
31	3.04		3.26		2.98		3.07	3.16		3.04		3.15
AVERAGE DAILY RATE	3.17	3.07	3.06	3.03	3.00	3.04	3.09	3.08	3.07	3.05	3.08	3.11
EFFECTIVE ANNUAL YIELD	3.22	3.11	3.11	3.07	3.04	3.09	3.13	3.13	3.11	3.10	3.13	3.15
ACTUAL YIELD (Last 12 Months)	3.56	3.48	3.40	3.33	3.26	3.20	3.16	3.14	3.12	3.12	3.12	3.11







Sinking fund investment 2/3/94

Rate 6.22% purchase \$574,000  
for 266,429.84 to mature 8/16/06  
to settle on 2/4/94

Transferred from Mercantile 51009-2  
Spoke to Mary 1800-492-5160 266,429

To

Maryland National Bank  
Baltimore Md

ABA 052000168

Brokerage acct 4518080

for further credit to

Town of St. Michaels acct 30325535

Transfer to take place 2/4/94 w/settlement







Ken Fishbach  
1- 800-451-1723

2/1/94

\$366 + K

\$100K in Pool

266

1) Should we NOW OR LATER  
in terms of  
MAX. OUR INT. INC.

→ NOW end of '9.  
= a la STRATEG

2) RATE

SHOULD WE EXPECT "MORE" IF  
WE INVEST MORE  
THAN \$266

↓  
Better Rate

↓  
3) i.e. we INC BY \$15K  
each month

4) WALK THROUGH STATEMENT  
SPEC. RE. MKT VALUE VS NET VALUE







FEBRUARY 28, 1994

Members of the St. Michaels Utilities Commission met with Delmarva Power officials at 12:30 PM on Monday, February 28, 1994 at the Town Dock Restaurant for the 1993 annual meeting. Those present were St. Michaels District Manager Larry Wood and Cambridge District Manager Lake Slakum from Delmarva, Utilities Commission Harold Bassett and Alex Spencer, Town Commissioner Fred Mowbray, Town Manager Andrew Hollis, and Roberta H. Marshall.

After a short discussion about the annual report from Delmarva, the balance of the luncheon meeting was devoted to discussion about the recent ice storm on the Shore, and the numerous outages it caused. Although there was much damage done in the area, it was unanimously agreed that Delmarva personnel had handled the entire situation in a very professional manner.

The meeting was adjourned at 2:30 PM.

A handwritten signature in cursive script that reads "Roberta H. Marshall". The signature is written in dark ink and is positioned above a horizontal line.

Roberta H. Marshall, Secretary-Treasurer







MARCH 4, 1994

Under Subsection 10-508 of the Maryland Code, President of the Utilities Commission Harold Bassett met with the Town Commissioners in Executive Session on Friday, March 4, 1994 in the Town Office Meeting Room. Those present were Town Commissioners Gerald Edmondson, Don Healy, Fred Mowbray and Victor MacSorley, Town Manager Andrew Hollis, Utilities advisor John Wilson of John W. Wilson & Associates, Mr. Bassett and Roberta H. Marshall.

Mr. Edmondson called the meeting to order at 4:30 P.M. He then turned the floor over to Mr. Bassett. Mr. Bassett reminded the Commissioners that they had requested a scope of work entailed for a work study on possible strategies for the next lease negotiation in 1996. Mr. Wilson then gave his views on the subject.

Before adjournment, Mr. Bassett requested that the Town Commissioners meet with the Utilities Commission and former Utilities Commissioner Carroll Wills, who is knowledgeable about Delmarva's accounting methods concerning the St. Michaels system. It was agreed that another meeting would be called at the earliest convenient time to all.

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

  
Roberta H. Marshall, Secretary-Treasurer







JUNE 13, 1994

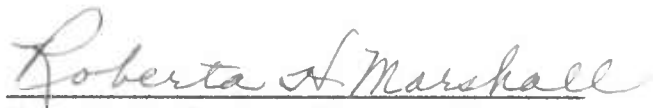
At the invitation of Delmarva's Executive Vice President Ray Landon, members of the St. Michaels Utilities Commission attended a luncheon at Harrison's Chesapeake House in Tilghman on Monday, June 13, 1994 at noon.

Utilities members in attendance were Harold Bassett, Alex Spencer, William A. Morse, and Roberta Marshall. Town Clerk/Manager Andrew Hollis was also present. Delmarva was represented by Mr. Landon, St. Michaels District Manager Larry Wood, and Ms. Louise Morman.

Mr. Landon explained that he was hosting the luncheon in order to introduce Ms. Morman to the Utilities Commission. Ken Jones, the Delmarva Vice President who is liaison with St. Michaels regarding the lease, will be retiring in the very near future. and Ms. Morman will replace him.

In an effort to acquaint Ms. Morman with the St. Michaels system, discussion during the luncheon involved various topics concerning the franchise, the distribution system, etc.

The group adjourned at 2:30 PM.

  
Roberta H. Marshall, Secretary-Treasurer







MINUTES OF EXECUTIVE SESSION  
TOWN OF ST. MICHAELS AND ST. MICHAELS UTILITIES COMMISSION  
September 8, 1994

The Town Commissioners met jointly with the Utilities Commission in the Town Office Meeting Room on Thursday, September 8, 1994. Members present were the President of the Town Commissioners, Victor MacSorley, Commissioners Fred Mowbray and David Smith, Utilities Commissioners Harold Bassett and Alex Spencer, Town Clerk/Manager Andrew Hollis, Town Attorney Michael Hickson, Utilities Advisor William Corkran, and Roberta Marshall, Secretary for the Utilities.

The meeting, held in Executive Session under Subsection 10-508 of the Maryland Code, was called to order by Mr. MacSorley at 10:10 AM. The floor was immediately turned over to Mr. Bassett.

Mr. Bassett explained that he had requested the meeting to outline actions that the Commissioners and the Utilities might take in order to avoid the expense of a formal economic study regarding the possible condemnation of the lease with Delmarva. He noted that Mr. Corkran was present to talk to the group regarding the engineering aspects of running the utility without Delmarva. He also suggested that the group meet with attorney Wally Duncan regarding the legal aspects of condemnation. Mr. Duncan has experience in that field, and was the attorney who represented St. Michaels during the arbitration negotiations in 1992. He added that Town attorney Hickson and his associate, Ed Banks, are also interested in this regard. The next step, according to Mr. Bassett, would be to meet with a financial consultant regarding possible means to finance the take-back and initial operating costs. Finally, Mr. Bassett suggested that the group meet with former Utilities Commissioner Carroll Wills, who is a CPA and might help unravel Delmarva's methods of accounting concerning the St. Michaels plant. If this plan is followed, Mr. Bassett stated, the formal study will not be needed. He also mentioned that an informal talk with someone from the American Public Power Association could be useful. He then introduced Mr. Corkran, who has worked closely with the utilities since his retirement from Easton Utilities.

Mr. Corkran spoke briefly of his background, as well as the growth in the utilities industry as the life style of the population changes. He stated that he has seen tremendous growth in the St. Michaels system. Mr. Corkran then stated that the Commissioners must make the decision of whether they will control the destiny of the St. Michaels Utilities system or whether Delmarva will have that control. He noted that he was extremely disappointed in the decision of the arbitrator at the last negotiation session. Mr. Corkran spoke of the vast growth on the Easton Utilities system during his thirty years with them, and







added that he is sure that the St. Michaels system has the same potential. He spoke of the excellent qualifications of Mr. Duncan and Mr. Wilson, who handled the arbitration for the Utilities, and offered to contact people from the APPA to come and speak with the group to give some sort of perspective of what is happening all over the country. He then opened the meeting to questions.

Mr. Bassett asked Mr. Corkran what his position would be if he was faced with the decision. Mr. Corkran answered that the group is facing a complicated business, and must look at the practicality of all the possible options.

Mr. Mowbray asked Mr. Corkran to describe some of the options. Mr. Corkran stated that one option would be to go into self-generation, although he would not recommend it at the present time. This would require skilled personnel, and the question would arise as to whether the size of the utility would warrant such a system. Another option would be to turn the system over to Delmarva at whatever price they would pay for it. A third option would be to renegotiate another lease, although he felt that Delmarva would be opposed to that since the object of a lease is to acquire the property with the least amount of capital investment spread over years and then being able to make a purchase at the lowest possible cost. He stated that he has always been opposed to leasing because of that fact. Mr. Corkran added that a lease is a great system for the private utility. He pointed out again that the group must look at all the options.

Mr. Bassett asked about buying electricity from a pool, such as Easton or Choptank. Mr. Corkran stated that everybody benefits from such a plan, and that Delmarva would benefit as well. As an example, he gave his experiences while at Easton Utilities with selling power to Delaware towns during their peak load periods.

Mr. Bassett then mentioned that Delmarva's Ken Jones testified at the arbitration hearings that Delmarva is making no substantial revenue on the St. Michaels system, which is contrary to the findings of Mr. Wilson, who calculated that revenue as nearly a million dollars a year. He added that the lease is not indexed, and that St. Michaels has no sign-off authority on any changes made to the system by Delmarva. Thus Delmarva can increase assets to the point that St. Michaels would find it impossible to take back the system at the end of the lease. Mr. Bassett added that another option open to the Town would be to take the matter to court and try to condemn the lease, although the Town would have to pay Delmarva the net book value and possibly for lost earnings as well if the lease was condemned. He asked what steps the Town would have to take if St. Michaels turned to a pool or another power company for electricity if the lease was terminated.

Mr. Corkran noted that under the new laws, the whole concept is changing, and Delmarva must allow transmission by another company on their







lines. Mr. Bassett mentioned that it is predicted that there would be a surplus of power in our area by about 2004, due to new generating units being built by systems such as the co-ops and private industry, who would have excess power at first. At that time, St. Michaels could go into the market for the best price, which is another option that would be available to the Town. Mr. Corkran said it is his understanding that the co-ops are planning to build a generating station, and noted that one of the largest co-ops in the country is in Southern Maryland, right across the bay. He added that the co-ops threaten to build their own generating stations each time they negotiate with Delmarva on rates. This would be another option for St. Michaels if a plant is built, but it would be a long way until completion.

Mr. Mowbray asked how many towns in this area still have their own utility generation system. Mr. Corkran replied that Dover, Easton, and Berlin still operate generating plants, at least to handle their peak load periods.

Mr. Bassett asked what kind of infrastructure the Town would have to have if electricity was purchased from someone. Mr. Corkran stated that one employee, probably part-time, would be all that would be necessary to keep track of costs on the pool. He stated that the Town could contract for maintenance or enlargement of the system, and added that this practice is being used more and more for all types of utility work.

Mr. Mowbray thanked Mr. Corkran for sharing his expertise with the Commissioners, and noted that meeting with experts in each field will help the Commissioners greatly with their final decision. Mr. Corkran replied that changes are occurring daily, and a sensible decision cannot be made without the proper background.

The discussion then turned to the lease payments, and how the amount of rent should have increased since its inception. Mr. Corkran noted that, although he and Mr. Wilson had used entirely different methods to figure the amount of rent that was reasonable, they both came to almost the same figure. Mr. Bassett stated that it is only a year until new rent negotiations are due, and it will be necessary to have a very solid strategy before that time. Town Commissioner David Smith asked about the timing of the condemnation, if the Commissioners decide to go that route. Mr. Hickson stated that the timing is all a question of strategy, but the fact that it is even being discussed should not be allowed to leak out. Mr. Spencer noted that the next re-negotiation may be different, since some of Delmarva's people who took part in previous sessions will be retired.

Mr. Smith then asked if a part of the St. Michaels franchise could be sold. Mr. Hickson stated that he believed it could be done, with Maryland Public Service Commission approval. Mr. Spencer noted that it is wise to hold on to the entire franchise if in any way possible.







In summing up, Mr. Corkran told the Commissioners that the Town has a great asset in the Utilities, and he felt it would be tragic to do anything to jeopardize that asset. He added that the Utilities is the one growth industry that the Town has.

Mr. Spencer asked Mr. Corkran if the Maryland PSC still favored municipalities as they seemed to years ago, and if he thought they might be of help to the Town. Mr. Corkran replied that he did not think that is the case any more. Mr. Hickson spoke of some of the current rulings of the PSC.

Mr. Corkran offered to help the Commissioners in any way he could in the future.

After the Commissioners extended their thanks to Mr. Corkran for his fine advice, the meeting was adjourned at 11:35 AM.

  
Roberta H. Marshall, Secretary-Treasurer







TUESDAY, DECEMBER 13, 1994

The annual meeting of the St. Michaels Utilities Commission and Delmarva Power was held at the Town Dock Restaurant on Tuesday, December 13, 1994 at noon. Members present were Harold Bassett, William A. Morse and Roberta Marshall. Town Commissioner Fred Mowbray and Town Clerk/Manager Andrew Hollis were also present. Delmarva representatives were Vice Presidents Doug Boyce, Nathan Wilson, Wayne Lyons, and St. Michaels District Manager Larry Wood. Mr. Wilson is replacing Louise Mormon, and will be the new liaison with St. Michaels regarding the lease.

Delmarva's Annual Report of the St. Michaels System was discussed during luncheon. Mr. Lyons agreed to contact the person who is knowledgeable about the Public Service Commission's new ruling on wheeling, and that person will contact Mr. Bassett in the near future.

It was also decided that Mr. Bassett will visit the Delmarva Wilmington office after the first of the year to get some additional information on the St. Michaels system.

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

  
Roberta H. Marshall, Secretary-Treasurer







JANUARY 24, 1995

A meeting of the St. Michaels Utilities Commission was held in the Town Office Meeting Room on Tuesday, January 24, 1995. Members present were Harold Bassett, William A. Morse, new member George Wilson, Jr., and Roberta H. Marshall. Also present were Town Clerk/Manager Andrew Hollis and Assistant Town Manager Jean Weisman.

The meeting was called to order by the President, Mr. Bassett, at 3 PM.

Mr. Bassett announced that the first order of business was to note the absence of Alex Spencer from the Board after serving as a Utilities Commissioner for many, many years. Since he is no longer a St. Michaels resident, he was ineligible for reappointment to the Commission. Mr. Bassett suggested that the Utilities Commission go on record, and ask that the Town Commissioners go on record, to in some way recognize Mr. Spencer's many years of service to the Town. A motion to that effect was made by Mr. Morse, seconded by Mr. Wilson, and passed by unanimous vote. It was agreed that it would be more than suitable to recognize Mr. Spencer at a meeting of the Town Commissioners.

Mr. Bassett then turned discussion to the investment of the Sinking Fund. He announced that Mr. Fischbach is no longer with the investment division of NationsBank (formerly Maryland National Bank), and Ms. Fran Cashman will be the contact regarding the Fund in the future. He suggested that Mrs. Weisman call her regarding the proper time to deposit the additional monies. Mrs. Weisman presented a report showing the market value of the present Fund, and the amount that is due for investment in Zero Coupon Bonds. Mrs. Weisman noted that the amount purchased this year will be less than the amount shown on the original scenario, since the purchase last year was more than it should have been due to a bookkeeping error. This year's purchase will bring the fund to the proper amount. Mr. Bassett asked Mrs. Weisman to request an updated program of the Fund from Ms. Cashman, showing the actual amounts.

In order to bring Mr. Wilson up to date, Mr. Bassett then briefly reviewed the last lease negotiations, including the decision of the arbitrator. He spoke of the present plan to meet jointly with the Town Commissioners and experts from several fields in order to prepare for the next time. Mr. Bassett stressed that the recommendation that is made by the Utilities and the ultimate decision of the Town Commissioners will be very important to the future of the Town. In answer to a question from Mr. Bassett, Mr. Hollis noted that the Town Commissioners are gaining a great deal of insight from the joint meetings, and realize the magnitude of the decision ahead of them. He added that they also want to hear from Town Attorney Hickson about the matter.







Mr. Bassett then spoke of the Public Service Commission hearings regarding new rules, to be held March 7 through March 10. St. Michaels has decided not to comment on the proposed rules at this time. The PSC has notified the Town that, due to the amount of paper involved, they cannot send copies of all pertinent information to more than one address, and it was decided that Mr. Hickson will receive that information and then pass it on to the Town Office. Since Mr. Hickson represents St. Michaels at the PSC, he will be requested to secure a transcript of the hearings. If this is not possible, Mr. Bassett stated that a review of the proceedings might be gotten from Wally Duncan.

Mr. Bassett announced that Mr. Corkran has offered to bring two members of the American Public Power Association to a meeting with the Utilities. They would also meet with the Town Commissioners. It was decided to accept Mr. Corkran's offer.

The matter of the franchise covering the Dudrow property was brought up. The property has recently been annexed into the Easton town limits. After discussion, it was decided that it would be in St. Michaels' best interest not to pursue the trade of the franchise at this time. Nothing will be done until such time as the Commission is contacted by Easton.

Election of officers for the year was next on the agenda. Mr. Morse proposed the following slate:

President	Harold Bassett
Vice President	George W. Wilson, Jr.

The motion was seconded by Mr. Wilson, and the slate was elected by unanimous vote. Mrs. Marshall was named Secretary-Treasurer.

There was no other business, and the meeting was adjourned at 4:00 PM.

  
Roberta H. Marshall, Secretary-Treasurer







# NationsBanc Capital Markets, Inc.

715 Peachtree St. N.E. 3rd Floor  
Atlanta, Georgia 30308-1297

TOWN OF ST. MICHAELS SINKING FUND  
P.O. BOX 206  
ST. MICHAELS, MD 21563

ACCOUNT NUMBER	PAGE NUMBER
25016270	1 OF 1

INVESTMENT OFFICER
KEN FISCHBACH 10 LIGHT STREET 6TH FLOOR BALTIMORE, MD 21202 <i>FRAN CASHMAN</i> TELEPHONE (800)253-9193

TAX ID NUMBER
52-6000805

STATEMENT PERIOD
12-01-94 TO 12-30-94

OFFICE	ID
37	KE

## Special Disclosure Concerning Nondeposit Investment Products. These Products Are:

- \* Not Insured by the FDIC
- \* Not a deposit or obligation of, or guaranteed by, NationsBank Corporation or any of its affiliate banks.
- \* Subject to investment risk, including possible loss of principal amount invested.

MONTHLY STATEMENT CYCLE DATES: EFFECTIVE JANUARY, 1995, THE MONTHLY STATEMENT WILL BE PRODUCED THE LAST FRIDAY OF EACH MONTH, EXCEPT AT YEAR-END WHEN IT WILL BE PRODUCED ON THE LAST DAY OF THE MONTH.

### ACCOUNT ACTIVITY

Date	Transaction	Quantity	Description	Price	Amount
	OPENING CASH BALANCE				.00
	CLOSING CASH BALANCE				.00

### ACCOUNT POSITIONS

Cusip	Quantity	Description
912833CQ1	5,399,000.00	TREASURY INTEREST COUPON TINT 08-15-06

12/4/95

LK

Market Value as of 12/30/94 - 2,175,958<sup>97</sup>

NationsBanc Capital Markets, Inc.

Member: NASD, SIPC







JEAN

Town of St Michaels  
Sinking Fund Strategy







Town of St Michaels  
Sinking Fund Strategy

Goal: To provide maximum dollar value in September 2006 for accumulated funds consisting of Utility Lease revenue minus Annual Expenses.

Strategy:

Part I.

Make an initial purchase of a government security with accumulated Sinking Fund cash to mature in 2006.

Note: This initial phase was completed on 1/20/93 purchasing a US Zero coupon bond costing \$1,774,152.50 to mature on 8/15/06 @ \$4,825,000.

Part II.

At the completion of the calendar year a purchase of a government security (preferably a zero coupon bond) will be executed with accumulated funds to mature on or around 8/15/06. This should continue from 1993 thru 2001. It is currently the intention of the commission to leave \$100,000 on deposit in a demand account with a local banking institution at all times.

Part III.

At the completion of the calendar year a purchase of a government security (preferably a treasury note) will be executed with accumulated funds to mature on or around 8/15/06. This should continue from 2002 thru 2006.

Note: Attached is a financial model which outlines this strategy and applies interest rate assumptions and expense/income forecasts to obtain an estimated future value.







St. Michaels  
Case B  
Scenario #4

Current Sinking Fund Balance \$1,774,000

Initial Transaction

GNMA Purchase 15 yr @ 6.50% \$0  
Zero Coupon Purchase \$1,774,000

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	\$1,774,000		7.00%		\$0	\$0			\$4,825,000
1993	\$94,000		7.00%	\$310,000	\$0	\$0	\$120,000	\$100,000	\$555,288
1994	\$188,000		7.00%	\$310,000	\$0	\$0	\$126,000	\$100,000	\$504,844
1995	\$181,700		7.00%	\$310,000	\$0	\$0	\$132,300	\$100,000	\$458,072
1996	\$175,085		7.00%	\$310,000	\$0	\$0	\$138,915	\$100,000	\$414,716
1997	\$218,139		6.50%	\$360,000	\$0	\$0	\$145,861	\$100,000	\$451,986
1998	\$210,846		6.50%	\$360,000	\$0	\$0	\$153,154	\$100,000	\$412,178
1999	\$203,189		6.50%	\$360,000	\$0	\$0	\$160,811	\$100,000	\$375,053
2000	\$195,148		6.50%	\$360,000	\$0	\$0	\$168,852	\$100,000	\$340,435
2001	\$186,705		6.50%	\$360,000	\$0	\$0	\$177,295	\$100,000	\$308,168
2002		\$227,841	6.00%	\$410,000	\$13,670	\$0	\$186,159	\$100,000	\$227,841
2003		\$232,203	6.00%	\$410,000	\$27,603	\$0	\$195,467	\$100,000	\$232,203
2004		\$236,362	6.00%	\$410,000	\$41,784	\$0	\$205,241	\$100,000	\$236,362
2005		\$240,282	6.00%	\$410,000	\$56,201	\$0	\$215,503	\$100,000	\$240,282
2006		\$243,923	6.00%	\$410,000	\$70,837	\$0	\$226,278	\$100,000	\$243,923
TOTAL:								\$100,000	\$9,897,187
COMBINED TOTAL:									\$100,000
									\$9,997,187

Assumptions:

Annual expenses: \$120,000 increasing 5% per year.  
Income: \$310,000 increasing by \$50,000 in 1997 & 2002  
Projected 15 yr Value: \$9,997,187  
Excess Balance: Earns a rate of 4%.

St. Michaels  
Case B  
Scenario #4







1/24/95

MLGIP

Balance 222,304<sup>63</sup>

January transfer has not been  
made to date, it will be 14,808.33

222,304<sup>63</sup>

14,808.33 Jan. Deposit to be made

237,112.96

- 100,000.00 Balance kept in fund

137,112.96 To invest







**MARYLAND LOCAL GOVERNMENT INVESTMENT POOL**  
**1994 DAILY RATES NET OF FEE (All Rates Are Rounded)**

	JAN	FEB	MAR	APR	MAY	JUN	JUL	AUG	SEP	OCT	NOV	DEC
1	3.15	3.13	3.24	3.42	3.60	4.06	4.19	4.33	4.62	4.77	4.91	5.43
2	3.15	3.23	3.27	3.42	3.64	4.04	4.19	4.32	4.60	4.77	4.90	5.43
3	3.18	3.08	3.26	3.42	3.65	4.10	4.19	4.32	4.60	4.73	4.86	5.43
4	3.15	3.10	3.24	3.44	3.67	4.10	4.19	4.33	4.60	4.74	4.91	5.43
5	3.13	3.10	3.24	3.43	3.69	4.10	4.25	4.34	4.60	4.73	4.91	5.46
6	3.12	3.10	3.24	3.43	3.70	4.12	4.28	4.34	4.63	4.74	4.91	5.46
7	3.09	3.18	3.34	3.43	3.70	4.10	4.27	4.34	4.64	4.78	4.93	5.42
8	3.09	3.17	3.35	3.40	3.70	4.09	4.26	4.34	4.65	4.78	4.90	5.48
9	3.09	3.15	3.33	3.40	3.80	4.10	4.26	4.36	4.64	4.78	4.89	5.47
10	3.10	3.13	3.34	3.40	3.74	4.10	4.26	4.34	4.64	4.78	4.97	5.47
11	3.10	3.11	3.32	3.48	3.72	4.10	4.27	4.33	4.64	4.76	4.97	5.47
12	3.07	3.11	3.32	3.46	3.71	4.10	4.27	4.33	4.67	4.75	4.97	5.51
13	3.06	3.11	3.32	3.43	3.74	4.15	4.29	4.33	4.66	4.76	4.97	5.49
14	3.05	3.20	3.37	3.48	3.74	4.17	4.29	4.33	4.66	4.76	5.06	5.52
15	3.05	3.26	3.38	3.49	3.74	4.16	4.28	4.41	4.67	4.76	5.23	5.57
16	3.05	3.24	3.37	3.49	3.82	4.15	4.28	4.44	4.65	4.76	5.26	5.55
17	3.05	3.18	3.35	3.49	3.85	4.15	4.28	4.50	4.65	4.79	5.29	5.55
18	3.11	3.16	3.32	3.53	3.92	4.15	4.31	4.52	4.65	4.79	5.27	5.55
19	3.20	3.16	3.32	3.61	3.94	4.15	4.30	4.53	4.66	4.77	5.27	5.56
20	3.09	3.16	3.32	3.60	3.92	4.17	4.30	4.53	4.67	4.78	5.27	5.57
21	3.03	3.16	3.37	3.62	3.92	4.16	4.30	4.53	4.68	4.78	5.29	5.63
22	3.03	3.19	3.39	3.60	3.92	4.17	4.29	4.56	4.68	4.78	5.30	5.64
23	3.03	3.17	3.28	3.60	3.96	4.17	4.29	4.54	4.68	4.78	5.31	5.66
24	3.08	3.18	3.36	3.60	3.95	4.15	4.29	4.54	4.68	4.80	5.31	5.66
25	3.07	3.16	3.36	3.64	3.95	4.15	4.31	4.56	4.68	4.82	5.32	5.66
26	3.08	3.16	3.36	3.60	3.95	4.15	4.33	4.58	4.72	4.81	5.32	5.66
27	3.08	3.16	3.36	3.60	3.94	4.18	4.33	4.58	4.71	4.81	5.32	5.71
28	3.06	3.26	3.38	3.61	3.94	4.17	4.35	4.58	4.68	4.83	5.37	5.62
29	3.06		3.37	3.60	3.94	4.16	4.32	4.60	4.70	4.83	5.38	5.64
30	3.06		3.36	3.60	3.94	4.19	4.32	4.62	4.77	4.83	5.48	5.70
31	3.12		3.42		4.02			4.66		4.89		5.70
AVERAGE DAILY RATE	3.09	3.16	3.33	3.51	3.82	4.13	4.28	4.45	4.66	4.78	5.14	5.55
EFFECTIVE ANNUAL YIELD	3.13	3.21	3.38	3.57	3.89	4.21	4.36	4.54	4.76	4.89	5.26	5.70
ACTUAL YIELD (Last 12 Months)	3.11	3.12	3.14	3.18	3.25	3.34	3.45	3.56	3.70	3.85	4.03	4.24







JOINT MEETING  
COMMISSIONERS OF ST. MICHAELS AND  
ST. MICHAELS UTILITIES COMMISSION  
FEBRUARY 10, 1995

St. Michaels Town Commissioners and the Utilities Commission met in joint session in the Town Office Meeting Room on Friday, February 10, 1995.

Members present were Town Commissioners Victor MacSorley, John Dunlap, Fred Mowbray and David Smith. Utilities Commissioners Harold Bassett, William A. Morse and George Wilson, Jr. were all present. Town Clerk/Manager Andrew Hollis, Utilities Secretary-Treasurer Roberta Marshall, and attorney Wallace Duncan were also in attendance.

The meeting was called to order by the president of the Town Commissioners, Mr. MacSorley, at 7:30 PM. Since the purpose of the meeting was to discuss the legal ramifications of the lease with Delmarva Power with Mr. Duncan, the group immediately went into Executive Session.

The meeting was then turned over to Mr. Duncan. Mr. Duncan had previously distributed an outline of his proposed agenda and a summary of a condemnation case he was involved with for the town of Massena, New York. He explained that the outline contained information that would have to be addressed at some point in time in deciding what will have to be done with the existing lease with Delmarva, whether it will be renegotiated in 1996 for another five-year period or condemnation proceedings are planned. He added that a condemnation suit would take a considerable time, and that if that route is considered it should be started in the very near future. Mr. Duncan stated that he had addressed both issues in his outline, and noted that the Commissioners might want to combine the subject of condemning the lease with conducting further negotiations with Delmarva. After giving a brief history of the last negotiations, he stated that there have been many changes since the system was leased: in the industry as a whole, in Delmarva personnel and policy, and in Federal and State laws.

The first section of Mr. Duncan's outline detailed the steps that must be taken if St. Michaels decides to take back the system. (The outline is attached for reference.) Mr. Duncan stated that he had based the consulting team on past cases that have been tried by his firm, although none of them were exactly like the situation facing St. Michaels. He stressed that the Town would need a charter amendment to issue revenue bonds to refinance the system, adding that revenue bonds are issued in anticipation of revenues, and are paid back from revenues from the facilities that are purchased with the bonds, while general obligation bonds would tie up the full faith and credit of the town. He added that







a separate Bond Counsel would have to be engaged. He also noted that there are Federal and State regulations that must be met in issuing bonds. Citing Section I. B., Mr. Duncan stated that he was not recommending a formal feasibility study at this time, since the Town has previously operated the utility system and is aware of what is there.

Mr. Duncan then turned to item II. of the attached outline. He noted that the next renegotiation of the lease is scheduled for the five-year period beginning October 15, 1996, and that it will probably be worth while to try to renegotiate and if not, to arbitrate something better than the present amount. However, he added, he is sure that any increase would not create enough revenues to purchase the system at the end of the lease. He noted that the Town has no control over the amount of improvements that Delmarva makes to the system. Although the Town has an alternative at present to try to renegotiate the lease to give it more control in the leasehold improvements, he would not recommend it. Mr. Duncan noted that if the lease is condemned now, it will be less expensive to buy back the system than in 2006, when the lease expires. He added, when discussing section B. 5 (see attached outline) that at the arbitration hearing in 1991 Delmarva had claimed, under oath, that they were losing money on the St. Michaels system and therefore the rental amount should be less; it would be very hard for them to claim in condemnation proceedings that they would be losing a lot of revenue. Mr. Duncan also noted that the lease is very clear on the method to be used in valuing any improvements that Delmarva has made to the system. In discussing Section II. C., Mr. Duncan stated that although St. Michaels may make a tender-offer to Delmarva before starting condemnation, it is not required.

In discussing Section II. D. of the outline (see attached), Mr. Duncan noted that a condemnation suit would be tried in Talbot County, and he recommended that it be by jury trial. He also stated that, in Maryland, the condemnor has the right to abandon the project within 120 days after judgment, but must pay all of the condemnee's costs, which could amount to considerable expense.

In Section II. E. of the outline, Mr. Duncan stated other options open to the Town. He did not anticipate a significant increase in the rent in the event the Town decides to renegotiate for the next five-year period. He did not recommend threatening condemnation of the lease at the 1996 negotiations unless the Town was serious about going through with the suit. In answer to a question from Mr. Hollis, Mr. Duncan stated that, based on his past experience, he thought Delmarva would take such a threat seriously. He also suggested that the lease might be renegotiated to extend the date for reacquisition or to give St. Michaels authority to approve major improvements, thereby limiting the amount of money necessary to buy back the system at the end of the lease period. The worst alternative, according to Mr. Duncan, would be to do nothing until 2006.







Mr. Dunlap asked if St. Michaels would be able to run the facility if Delmarva decided to return the system to St. Michaels. In reply, Mr. Duncan noted that the situation was covered under Section IV. of the outline. He spoke of the experiences of the town of Massena, who hired an outside engineer for a short period to train the town's personnel to operate their system. Mr. Dunlap also asked if it would be possible for Delmarva to install a lot of equipment that was not needed, in order to push up the buy-back price. Mr. Duncan explained that any major improvement would have to be approved by the Public Service Commission, and he did not think that was very likely. He added that he is concerned, however, that Delmarva could have a tendency to "gold-plate" the system near the end of the lease period. Mr. Dunlap voiced his concern that if the Town waits too long to start condemnation proceedings, their chances of winning a trial would be seriously hampered. Mr. Duncan agreed. Mr. Wilson asked if Mr. Duncan had ever had an award that exceeded the original bond issue. Mr. Duncan replied that it had in Massena, and that an additional bond issue was made.

Mr. Duncan explained that under Section III. C, Severance would be Delmarva's cost to put their system back the way it was before the lease. He felt that would simply be the cost of metering in and out of their system, since they have not changed the franchise. He did not feel that Delmarva could make a case for stranded investment, due to changes in Federal laws. He suggested that St. Michaels advertise for a Request for Power Supply, and invite Delmarva to bid. He added that St. Michaels could probably expect many bids for their request, since there is an abundance of power at the present time, particularly in the East. Bidding would be at competitive rates, which he defined as a rate that would allow St. Michaels to pay all costs and still sell electricity at an amount less than Delmarva is charging their customers. He added that this may not be true at the very first, but would be as soon as the bonds are paid off. Mr. Duncan suggested that a direct tie with Easton might be a convenient interim arrangement. St. Michaels could then gradually start to run the system on its own. He added that the interconnection with Delmarva should never be disconnected, since the Delmarva system is St. Michaels' access to the PJM Pool.

In discussing Sections V. and VI., Mr. Duncan stated that the Maryland Public Service Commission has jurisdiction over St. Michaels, but since the lease did not extinguish St. Michaels' franchise, a new certificate of convenience may not be necessary. The PSC must, however, approve the issuance of any bonds or other evidence of indebtedness which will mature in more than twelve months. He suggested that steps be taken in the following order: file for condemnation, go through the referendum process to issue the bonds, and apply for PSC approval while the case is pending. He estimated that the







condemnation process would take approximately a year. The Federal Power Commission would have jurisdiction of transmission service arrangements, wholesale rates (e.g. Delmarva), and power pooling arrangements.

In speaking of Part G, Section VI., Mr. Duncan suggested that projected long-term savings by re-acquisition would have to be calculated by a power supply consultant, who has a grasp of total costs of acquisition, total operating costs after the system is taken back, has a good idea of what the cost of power is, and has an idea of transmission costs.

The final item on Mr. Duncan's outline, Section VII., dealt with the impact of electric industry restructuring. Under a law passed in 1992, there will be many changes. The Maryland Public Service Commission is currently holding hearings on changes they will enact to move the industry to a more competitive environment. The various segments of the system (i.e. generation, transmission, distribution) will be separated, so that the big utilities will not have the control over the industry that they have had in the past. This gives St. Michaels many opportunities to be competitive that were not available in the past.

Mr. Hollis summarized the options open to St. Michaels at the present time as follows:

1. Stay on the same course
2. Renegotiate the expiration date and other factors of the lease
3. Start negotiations in 1996 with a threat to condemn the lease
4. Condemn the lease now

He then asked Mr. Duncan what he would recommend. Mr. Duncan replied that, if he were sitting in the decisional seat, he would take the system back immediately because of what is happening in the industry. He added that he would hire an engineer to do the study on power supply costs and transmission costs, and advise Delmarva. He stated that there are any number of qualified people available to help the Town run the system, and he has seen it work in other municipalities. His first step would be to talk to Easton, and possibly to Choptank Electric and Southern Maryland Utilities.

Mr. Morse then raised his concerns about the costs that would be incurred by the acquisition. Mr. Bassett stated that the cost of a study on the situation would cost between \$50,000 and \$100,000, and added that he had hoped that the seminars that have been held will help the Commissioners in their decision. He hopes to have a group in to discuss the financial aspect for the next session. Mr. Dunlap expressed concerns that the Commissioners will need much more expertise to make an informed decision. Mr. Bassett also mentioned







that it might be possible to have someone from the American Public Power Association speak to the group. Mr. Bassett will arrange both meetings as soon as is convenient. David Smith noted that the Town's attorney, H. Michael Hickson, has expressed an interest in representing the Town in a condemnation suit. It was recognized that Mr. Hickson's agenda may be little different, but a meeting will be set up with him.

There was a short discussion on the arbitrator's decision in the last lease renegotiations.

Mr. Duncan was thanked for coming to the meeting.

Mr. Hollis distributed a copy of a letter from Downes Associates, Inc., requesting that St. Michaels join with the Town of Berlin in filing reply comments to MPSC Case No. 8678. Mr. Duncan left the room at this point. Mr. Bassett, who had read the letter earlier, stated that he felt Downes had no grasp of the subject and the stand they were advising was not in accord with the Town's best interests, since it echoes the stand taken by Delmarva. He stated that, in his opinion, the Town Commissioners should not file reply comments at all. Mr. Wilson and Mr. Morse will also give their opinions after they have had a chance to read the letter. The general feeling of those present was it was best not to get involved with Downes.

There was no further business, and the meeting was adjourned at 9:45 PM.

A handwritten signature in cursive script, reading "Roberta H. Marshall". The signature is written in dark ink and is positioned above a horizontal line.

Roberta H. Marshall







**COMMISSIONERS OF THE TOWN OF ST. MICHAELS**  
**AND ST. MICHAELS UTILITIES COMMISSION**

Agenda for February 10, 1995 meeting with the  
Commissioners of the Town of St. Michaels and members of the St.  
Michaels Utilities Commission

**I. Organizational Considerations**

**A. St. Michaels Consulting Team**

1. Attorneys (negotiations, condemnation and regulatory)
2. Appraisal and Economics
3. Engineering
4. Financial Consultant
5. Bond Counsel

**B. Feasibility Study (legal, engineering and appraisal, financial)**

1. Recommend informal study of each aspect of acquisition
2. No formal feasibility report
3. Comparative analysis of options open to St. Michaels

**II. St. Michaels/DP&L Lease Agreement**

**A. Schedule for Renegotiating the Annual Rent for the Five Year Period Commencing October 1<sup>st</sup>, 1996**

**B. Term and Termination Provisions of Lease Agreement**

1. Early Termination - not provided for in Lease Agreement
2. Voluntary renegotiation of Lease Agreement or early termination
3. Responsibility for compensation to DP&L for additions and improvements to the system - specified in Lease Agreement termination provision
4. Valuation of Assets (OCLD, RCNLD and Capitalization of Earnings. Comparable Sales probably not applicable)







5. Compensation for Lost Profits on earnings potential

**C. Negotiations with DP&L for Reacquisition of Facilities**

1. Pre-condemnation negotiation is not required by Lease Agreement or statute
2. St. Michaels make may a tender-offer to DP&L before commencing condemnation, but neither offer of pre-filing negotiations are required by statute

**D. Condemnation**

1. Jurisdiction and applicable laws of the State of Maryland
  - a. Circuit Court for Talbot County
  - b. Will be tried to a jury or, if jury trial is waived, by the Court (jury decides only compensation issues. Court rules on all legal issues)
  - c. Arbitration, mediation or other alternative dispute resolution procedure are not provided for under Maryland condemnation laws, but the parties could probably agree to arbitration if both consent
  - d. No provision for early taking or immediate possession (possession occurs when condemnation award is paid)
  - e. Condemnor may abandon the project with<sup>N</sup>120 days after judgment, but must pay all of the condemnee's costs.
  - f. Condemnor pays all costs of the proceedings

**E. Other Options**

1. Continue lease with five-year renegotiation and defer compensation issue until end of term of lease
2. Renegotiate term of lease to extend date for reacquisition or give St. Michaels Utilities Commission authority to approve major improvements
3. Combine 1996 lease negotiations with threat of condemnation for the lease







### III. Measure of Compensation in Condemnation

#### A. Cost of Facilities

1. Constitutional measure is "just compensation" in standard condemnation case
2. Various methodologies available in condemnation (RCNLD, OCLD, capitalization of earnings, comparable sales)
3. Since St. Michaels still has title to the system, including the improvements, compensation will probably be based on capitalization of earnings, plus DP&L's investment (i.e., depreciated net book value of improvements)
4. We will start with OCLD of additions and improvements
5. DP&L shows current net book value at \$5,662,817.225

#### B. Lost Profits

1. Measurement is probably capitalization of earnings
2. Period for which DP&L is entitled to recover lost profits (probably co-extensive with term of the Lease Agreement)
3. Relevance of DP&L testimony and exhibits in last (1993) arbitration proceeding

#### C. Other

1. Severance (e.g., metering and border line agreements)
2. Stranded Investment
  - a. Transmission Investment (cover Cajun case)
  - b. Generation Investment (Even assuming stranded investment could be recovered in standard case of creating a new munny within DP&L service territory comprising DP&L retail load, this principle probably would not apply in situation in which DP&L is only leasing the system for a fixed term)
  - c. Potential solution to avoid or minimize stranded cost liability







- (1) Issue RFP for power resources and invite DP&L to bid
- (2) Continue to buy at wholesale from DP&L

#### **IV. Operational Concerns**

##### **A. Re-establishment of Utility Infrastructure**

1. Utility staff
2. Utility maintenance equipment and facilities
3. Contract for operation and maintenance (e.g., Easton Utilities Commission or private contractor)
4. Interim contract operator as done in Massena at outset of operations -- phase in and train permanent staff

##### **B. Power Supply**

1. Wholesale purchases from DP&L
2. PJM Power Pool, N.Y. Power Pool, IOUs
3. QFs and IPPs
4. Auction or RFP for power supply proposals (cite Falls Church example)
5. Contract with Easton Utilities Commission to act as supplier or broker

##### **C. Transmission Arrangements**

1. Interconnection agreement with DP&L and PJM rights (cite Dover and Easton examples)
2. Direct tie to Easton
3. Sections 211 and 212 rights under FPA for transmission access on any available transmission line, including DP&L system, Philadelphia Electric or PJM

#### **V. Regulatory Matters**

##### **A. Jurisdiction of Maryland PSC**

1. Maryland PSC does have rate and service jurisdiction over municipal utilities
2. Maryland PSC must grant certificate of convenience and necessity to exercise franchise rights.







(Quare: since Lease Agreement did not extinguish St. Michaels' franchise as originally granted and certified in 1966, can St. Michaels resume exercise of its franchise rights upon extinguishing the Lease Agreement without obtaining a new certificate from the PSC? Probably so.

3. Maryland PSC must approve the issuance of any bonds or other evidence of indebtedness which will mature in more than 12 months. This would include either revenue or general obligation bonds and BANs with maturity date of over 12 months

**B. Jurisdiction of FERC**

1. Transmission service arrangements (Sections 211-212 of FPA)
2. Jurisdiction over wholesale rates of jurisdictional utilities (e.g., DP&L and PE)
3. Jurisdiction over power pools and power pooling arrangements (e.g., PJM pool)
4. Formation of RTGs in Atlantic Region

**VI. Project Costs, Financing and Schedule**

**A. Legal and Engineering Costs**

**B. Costs of Financial Consultants**

**C. Up-front Costs and Use of Bond Anticipation Notes  
(must have PSC approval per Item VA above)**

**D. Bond Financing**

1. General Obligation Bonds or Revenue Bonds
2. Amendment to St. Michaels Charter to allow use of Revenue Bonds
3. Restrictions on use of Tax Exempt Municipal Bonds (Revenue and Expenditure Control Act Restrictions)

**E. No Provisions in Maryland Law for Declaration of Taking or Other Vehicle for Immediate Possession Pending Outcome of Condemnation Award**

**F. Projected Length of Condemnation Proceeding**

1. Projected schedule for condemnation case - court calendar







2. Regulatory delays (e.g., securing transmission rights under FPA)
3. Power supply contract negotiations, RFP process, etc.

**G. Projected Long-Term Savings by Re-Acquisition**

1. Over term of Agreement
2. Over life of facilities
3. Project cost recovery period (e.g., Massena experience)

**VII. Impact of Electric Industry Restructuring**

- A. State and Federal Proposals**
- B. More Competitive Environment**
- C. Retail Wheeling**
- D. Market-based pricing**
- E. Effects on DP&L**
- F. Effects on St. Michaels Municipal Utility**







# Massena's Story

The public power story of Massena, N.Y., is such a well-known success that it may seem like overkill to report on its accomplishments. But Clifford Engstrom, the superintendent of the 8,800-meter system, still receives daily queries about the utility's 1981 battle to serve city residents, who were previously served by Niagara Mohawk Power Corp. In fact, he has a regular litany of commandments that he is happy to share with others—but only after he makes them listen to the utility's accomplishments first. So, in proper order, here they are:

## Accomplishments:

- The total savings to ratepayers has exceeded \$43 million, of which \$9 million were in 1993 alone.
- Average electric rates in 1993 were 29 percent lower than in 1982, and no change is expected for the next five years. Currently, Massena's residential rates are less than half of Niagara Mohawk's.
- There has been a 78 percent increase in kWh sales, but the utility operates with the same number of people (22) as it did in 1982. This is 10 less than Niagara Mohawk employed.
- The bonds will be paid off in 10 years. More than \$9.5 million in capital improvements have been financed internally, and another \$3.5 million were financed with bonds.
- The utility pays local taxes, just as Niagara Mohawk did previously. In fact, it is the second largest taxpayer in the town of Louisville, the fourth largest taxpayer in the town of Massena, and the 11th largest taxpayer in St. Lawrence County.

## Engstrom's recommendations for start-up success

- Have a well-qualified and independent utility board. (Engstrom said that he doesn't even know the political affiliation of most of his board members.)
- Get motivated and skilled employees. "Ninety percent of your problems are people problems. We had a higher turnover in the early years, but we are more stable now. I guess we've gotten better at selecting people," he said.

- Make sure that your retail rates are sufficient to handle ongoing expenses *plus* capital expenditures and emergencies. "If you think you can manage a 40 percent reduction after takeover, go in initially with a 25 percent reduction. Then, a few years later you can go for a second reduction, instead of a rate increase," he said.
- Have adequate start-up capital to purchase all inventory and equipment (both office and field) as well as four months of operating expenses.
- Have your rates, billing, and accounting system in place two months before start-up. Have employees on board and equipment on-site at least one month before start-up.
- Do all the environmental assessments of the existing equipment. Make sure you are not buying any equipment with problems; you don't want any major surprises.
- If one customer (typically a large industry or federal agency) comprises 20 percent or more of your load, do a thorough analysis of what the rates would be like if that customer left. This could have a dramatic effect on your debt service and make your rates higher than your neighbors'.
- Get good consultants. Engstrom said that they thought of most of the problems in advance—and worked out the solutions.
- Take the time to set things up right in the beginning. It's easier to start with good habits than to change bad habits after they have developed.
- Expect the unexpected. If there is a hurricane or earthquake on the first day after takeover, your customers won't be very happy if it takes you weeks or months to restore service. Plan for emergencies.
- Join the Boy Scouts (*i.e.*, be prepared)! ■







**DOWNES ASSOCIATES, INC.**

Engineering and Management Consultants  
Electrical • Civil • Mechanical

DUNLAP \_\_\_\_\_

HEALY \_\_\_\_\_

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February 6, 1995

H. Michael Hickson, Esq.  
Banks, Nason, Hickson & Sullivan  
113 Baptist Street  
P.O. Box 44  
Salisbury, MD 21803-0044

Dear Mike:

Subject: St. Michaels and MPSC Case No. 8678

We are in the process of completing our review of the Initial Comments from sixteen (16) different Parties in MPSC Case No. 8678 In the Matter of the Commission's Inquiry Regarding Electric Service, Market Competition and Regulatory Policies. During the Initial Comments period, we recommended that St. Michaels not file Initial Comments but reserve its right to file Reply Comments. Based on our assessment of the Initial Comments, it is our recommendation that St. Michaels file Reply Comments. We feel that these Reply Comments should avoid most of the issues in this Case that are peripheral to St. Michaels. Our focus should be on only those two or three issues of large potential impact to St. Michaels. The purpose of this streamlined approach is not only to hold down costs but also ensure that St. Michaels' major points do not get lost in the crowded marketplace of ideas and rhetoric that currently constitute the record of this Case.

At the Tuesday, February 7, meeting of the Commissioners of St. Michaels, we would like to receive their approval to proceed with the development of these Reply Comments. The Reply Comments are to be filed by Tuesday, February 21. In order to meet this schedule in only two weeks, we must be authorized to proceed immediately in this matter.

So that the Commissioners can see the status of this matter to date, I have provided the enclosed "phases" and budget estimate. The costs in Phase II Review of Staff Issue Paper and Phase IV Review of Initial Comments are to be borne jointly by the Town of Berlin and St. Michaels. Efforts in Phase I "Intervention ...." and Phase III "Planning ...." are unique to each utility and are borne independently.



H. Michael Hickson, Esq.

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February 6, 1995

Once we receive approval to proceed, I would like to meet with you and/or other St. Michaels' representatives in the next few days to review the outline of the Reply Comments.

During our initial conversations, you asked what might be a budget estimate to provide testimony in this proceeding. I speculated that testimony in this matter may cost \$8,000 to \$10,000 and that St. Michaels' half share may cost may be \$4,000 to \$5,000. Through several subsequent discussions, we have actually proceeded in a slightly different direction. I hope we all agreed it is a "better" direction. Since we have moved in a slightly different direction, I felt that I should report back to you and provide you with this status information. As you will see, the cost for the testimony (Reply Comments) has been reduced, while the review of Staff's Issue Paper and Review of Initial Comments has been added. Please feel to contact me with any questions you may have.


In summary, it was agreed that St. Michaels would not file Initial Comments; instead we have a) worked with you to obtain a general assessment of St. Michaels' exposure to retail wheeling, b) evaluated Staff's position through review of their Issue Paper, c) evaluated Pennsylvania Public Utility Commission parallel proceeding, and d) reviewed and evaluated sixteen (16) Initial Comments.

It is hoped that the above procedures allow the Reply Comments to be more effective and focused on St. Michaels' unique situation. Enclosed is a budget estimate based on the way we are currently proceeding. Please advise me of any concerns or instructions that you may have for me related to our current strategy.

Again, please let me know if you have any questions, direction, or additional instructions for me. I look forward to meeting with you again in the next few days.

Sincerely,

DOWNES ASSOCIATES, INC.

*David V. Downes* 

David V. Downes, P.E.

DVD/sle

Enclosures

cc Edward G. Banks Jr., Esq.

Jeffrey L. Premo, P.A.



The Commissioners of St. Michaels and  
the St. Michaels Utility Commission

Maryland Public Service Commission Case No. 8678  
In the Matter of the Commission's Inquiry  
Regarding Electric Service, Market Competition  
and Regulatory Policies

Status Report  
February 6, 1995

Phase I - Intervention and Discussion of Possible Regulatory  
Impact of Case No. 8678 to St. Michaels

Consultation with attorney regarding intervention; possible impacts of competitive market investigations; status of competitive market legislation and regulation in other states; status and implication of wholesale (FERC) actions; status of St. Michaels' lease; concerns and directions of Commissioners.

Phase II - Review of Staff Issue Paper Case No. 8678 "New  
Directions in Electric Regulation"

Review of Staff Issue Paper; research of regulatory issues; evaluation of Staff positions; development of summary of Staff Issue Paper; review of Pennsylvania competitive markets proceeding.

Phase III - Planning, Strategy, and Procedures for St. Michaels

Meeting and conversations with St. Michaels' attorney re: possible impacts to St. Michaels; customer base in St. Michaels; zoning and land use restrictions in St. Michaels service territory; geographic features of St. Michaels' service territory; implications of competitive on power supply level; implications of competition on T&D level, exclusive franchise rights; non-exclusive franchise rights; obligation to serve; service reliability and quality. Recommendation to St. Michaels regarding election to not file Initial Comments.

Phase IV - Review of Initial Comments

Review of Initial Comments of sixteen (16) Parties (see enclosed outline) with written outline of issues and recommendation regarding Reply Comments for St. Michaels. Seek approval from St. Michaels to develop Reply Comments.

Phase V - Develop and File Reply Comments on Behalf of St.  
Michaels

Outline and form yet to be approved by St. Michaels



Status Report  
Page 2  
February 6, 1995

Phase VI - Hearings

Prepare for and/or attend Hearings with attorney on behalf of St. Michaels (as requested).

Phase VII - Briefs

Aid St. Michaels' attorneys with analysis and/or development of brief (as requested).



Town of St. Michaels  
Review of Initial Comments  
February 6, 1995

Background

Of the forty-six (46) parties that expressed an interest in participating in evaluating the Maryland Public Service Commission Staff Issue Paper, Case No. 8678, titled "New Directions in Electric Regulation," sixteen (16) responded with initial comments.

The responses comprised 754 pages of testimony and exhibits. We have reviewed almost 500 pages to date.

Main Issue

What is the best structure under which to provide safe, adequate, and reliable electric service at the lowest possible cost? The three choices are: 1) to remain a monopoly, 2) to become a fully competitive market, and 3) to become a hybrid of the two.

Under a monopoly-structured industry, regulation is needed to protect the consumers, while under a competitive market structure, the forces of supply and demand dictate the price and availability of the product. Under a "hybrid structure," the functions and services of the electric industry would be selectively "unbundled." Consequently, each main function and service provided by an electric utility would be identified as having either the characteristics of a natural monopoly or the characteristics needed in a competitive market.

Encompassed in the above choices are many difficult and complex issues.

Summary

As expected, each choice has its supporters. On one end of the spectrum, some parties feel that the electric industry in Maryland has proved to provide safe, adequate, and reliable service at the lowest possible cost and no significant changes should be made at this time. On the other end of the spectrum are those parties which state competition has already begun in the industry and is inevitable. Therefore, movement from regulation to a competitive market should be accomplished as expeditiously as possible.

What Does This Mean for St. Michaels?

After reviewing the various issues and positions taken in response to the Staff Issue Paper, only a few are of significance and importance to the Town of St. Michaels.



Exclusive Franchise Protection

The transmission and distribution functions of utilities have been identified by most as being natural monopolies. As such, they should continue to have exclusive franchise rights and remain under the regulation of the Commission. This issue is critical for St. Michaels.

Recommendation

We recommend that St. Michaels file Reply Comments with the Commission on this issue. The following is a brief summary.

State St. Michaels' position that the transmission and distribution functions of utilities are still natural monopolies and would not be appropriate functions to place in the competitive market.

Reasons for exclusive franchise protection are:

- Not cost effective to have duplicate lines running throughout a distribution area that would be built and maintained.
- Obligation to serve.
- Reliability
- Social implications:
  - Not aesthetically acceptable to have two sets of poles and lines.
  - Additional obstructions could result in more vehicular obstructions.
  - In future road renovation projects, the cost would increase to improve roads where utilities are on both sides of the roadbed.
  - Prevent bypassing. Without exclusive franchise rights, competing utilities could choose fringe area customers to serve. The larger utilities would have the ability to artificially lower prices to entice customers, eventually eliminating the smaller ones and then raise. Anti-competitive practices could result.



The Commissioners of St. Michaels and  
the St. Michaels Utility Commission

Maryland Public Service Commission Case No. 8678  
In the Matter of the Commission's Inquiry  
Regarding Electric Service, Market Competition  
and Regulatory Policies

Status Report  
February 6, 1995  
Budget

	<u>Estimated Cost</u>
Phase I - Intervention and Discussion of Possible Regulatory Impacts of Case No. 8678 to St. Michaels	\$ 360 (Completed)
Phase II - Review of Staff Issue Paper Case No. 8678 <u>New Directions in Electric Regulations</u> and review of PaPUC proceedings. Estimated cost of \$2,600 to be divided between Berlin and St. Michaels <sup>(1)</sup>	\$1,300 (Completed)
Phase III - Planning strategy and procedures for St. Michaels	\$ 860 (Completed)
Phase IV - Review of Initial Comments; estimated cost of \$2,600* to be divided between Berlin and St. Michaels <sup>(1)</sup>	\$1,300 (Completed)
Phase V - Develop and file Reply Comments on behalf St. Michaels	\$3,000 (Estimated)
Phase VI - Hearings	As Requested
Phase VII - Briefs	As Requested

(1) Some costs may be borne by Thurmont and if so, a credit will be issued.







NOTES ON INFORMAL WORKSHOP  
MARCH 16, 1995

Held at 7:30 PM in the Town Office Meeting Room on Thursday, March 16, 1995.

Those present: Fred Mowbray, David Smith, Harold Basset, Andrew Hollis and Roberta Marshall.

Also in attendance: Peter Ramsey, Managing Director of the Public Finance Department of NationsBank, NationsBank Capitol Markets; Susan S. Burk, Vice President, NationsBank Public Finance Department; John H. Hennessey, Jr., Senior Vice President, NationsBank, Specialty Banking; and Nancy Smith, Manager of the St. Michaels Branch of NationsBank.

Mr. Ramsey explained that he had been contacted by Mr. Bassett regarding various options open to the Town regarding the lease for the electric system. Basing his statement on approximately twenty years of experience in financing, including electric utilities, he stated the process would be very detailed, that a number of different specialties would be involved, and it could be very detailed, drawn-out, and costly. Mr. Ramsey added that his firm would work with the various experts.

Mr. Ramsey said his firm provides financing scenarios (options) of financing:

1. Bank loan
2. Issuance of fixed rate bonds
3. Variable or fixed rate financing -- direct letter of credit from the bank

They try to look at 10, 15, 20, or 25 year loans. Power financing loans can go as long as 30 to 35 years.

The fixed rate debt market requires that a great deal of information is supplied to the investor, since it is governed by new SEC laws which require disclosure on a continuing basis. A detailed feasibility report will also be needed including a Rates and Charges Study, which would amount to an expenditure of approximately \$75,000 to \$100,000, and would take from 90 to 120 days to complete. The report is then included in the offering document for the bonds.

Letter of credit option for variable rate is much simpler. They do own analysis, will want some feasibility study, but not as extensive as for bonds. Funding would be done through issuance of bonds by MEDCO, a municipal pool program of \$100 million which is currently being set up by NationsBank. Could be drawn on immediately or as needed over a period of time. Options include being able







to make variable rate a fixed rate. Not more than 25 year period, starting with first year of issuance of MEDCO bonds. (Periods would decrease as bonds age.) Variable rate would change weekly. The pool program is being set up for municipalities, and the \$100 million is total for all participants. Money available immediately, as soon as credit analysis is completed.

Bassett: Can receipt of monies precede court case? Include funds for legal, engineering, etc.?

Ramsey: What if some money has been borrowed, and the Town decides for some reason not to take over the utility? How would you pay off interest and principal?

Bassett: We have to be sure in our own minds, and must be committed before starting.

Smith: Matter for Town Commissioners to decide. Mowbray: Have money in Sinking Fund. Bassett: About \$1.2 million dollars in Sinking Fund at present time.

Hennessey: As banker, must look at ability to pay loan back, at financial condition, at demographics of town, etc. Right now NationsBank is in the process of developing data on all the primary counties and some of the smaller subdivisions in Maryland to assist them in speedier service on loan applications. A term loan might also be considered by the bank, for 20 or 25 years.

Ramsey: If in Town's shoes, would try to do a bank loan, hold \$1.2 million back because can get higher interest rate on that, and make up mind as to limit of money to spend before going for permanent financing. Would put team on board first. Go to attorney, get fees on worst-case scenario, and get time frame. Talk to feasibility consultant, but don't let him do anything until needed. Hire team of financial advisors that can show you different options, and will work with other members of team. They work on hourly basis. Bond issuers only get involved when bonds are issued. Driving force will be the court process, and it will probably take longer than expected.

Bassett: Can we put together some scenarios and have NationsBank react to them? Ramsey: That's our job. Costs we can supply are current interest rates and cost of transaction. (Cost of issuance -- bond counsel and the town's attorney if go to public market. On variable rate letter of credit financing, cost would be their underwriters' costs, their counsel costs, and bank's commission fees, etc.) Growing customer base will be looked at. Cannot presume what engineering or feasibility fees will cost.







Ramsey: One hundred percent of costs can be financed. May need to pass an Inducement Resolution in order to do that. (He will check on that.) Does not force you to do anything, but just permits it if you want to. If plans are to do this by October of 1996, must start immediately or there won't be enough time.

Bassett: Can come up with team costs fairly easily, but costs of electricity will be harder to come up with. Would have to put out for bids to supply. Assuming projections are right, we will be in buyer's market.

Hennessey: NationsBank Bond Pool not established yet. In demand survey phase at the present time, and need approximately \$200 million in demand to justify \$100 million in pool. Survey will dictate size of pool, and will probably be finished by second week in April. Brought information about pool, and suggested that the Town participate in survey. Not obligated in any way. Does not guarantee that Town will get the money.

Ramsey: NationsBank will provide positives and negatives of each financing alternative.

There was discussion about decision that must be made, either now or in 2006 when the lease expires. Money will be needed at either time.

Ramsey: If decide to proceed now, the dollar amount needed is unknown. Can't promise that electric rates will be lower if that amount is not known. Very difficult decision.

Smith: Can bank work from the standpoint that we don't know how much money we'll need?

Hennessey: Sensitivity analysis will show that. Will show exactly where bargaining range is.

Ramsey: Can come back, and can do other scenarios. Can play two roles: a financing role, or a financial advisory role.

Bassett: We still have to consult with Wilson Associates to get some sort of analysis to present to the Town Commissioners. Ramsey: I'd like to chat with them also to learn more. We will run scenarios and you can make decision. Bassett: Perfectly all right. Have already told Wally Duncan that we were going to speak with you.

Ramsey: We are one of only ten or eleven banks in the country that have full ability to provide what the typical brokerage firm can provide. Have been granted those powers by the Feds.







Ramsey: We have touched on a lot of things that, if we had the full team of other experts present, we would have gone into in much more detail. Bassett: Think this is a good start.

Hennessey: If no objection, will leave information packet on Variable Rate opportunity, and will be happy to answer any questions that may arise.

The group was thanked for coming. Nothing else, session adjourned at 8:30 PM.

  
Roberta H. Marshall







MINUTES OF EXECUTIVE SESSION  
COMMISSIONERS OF ST. MICHAELS  
AND ST. MICHAELS UTILITIES COMMISSION  
MARCH 20, 1995

A joint meeting of the Commissioners of St. Michaels and the St. Michaels Utilities Commission was held on Monday, March 20, 1995. Town Commissioners Victor MacSorley, Fred Mowbray and John Dunlap, Utilities Commissioners Harold Basset, William A. Morse and George Wilson, Jr., Town Clerk/Manager Andrew Hollis, and Utilities Secretary-Treasurer Roberta H. Marshall attended the meeting. Three representatives from the American Public Power Association were also in attendance: Deputy Executive Director Paul Fry, Director of Information Services Deborah Penn, and David Penn, whose experience is working with utilities that are restructuring.

The meeting was called to order by Town Commission President MacSorley at 7:35 PM. On a motion by Mr. Dunlap, duly seconded and passed, the group immediately went into Executive Session to discuss legal matters.

Mr. Fry was then introduced by Mr. Bassett. Mr. Fry gave a brief history of his previous experiences with St. Michaels Utilities, explaining that he had advised against the lease in 1981, and that he again spoke to the Utilities before the 1991 lease negotiations. He stated that he felt St. Michaels had been ill-used in the arbitration. Mr. Fry stated that the APPA is a trade association of municipal utilities, most of them very small, typically with around 1700 customers. He mentioned the Federal Energy Policy Act of 1992, which greatly enhances the ability of small utilities to compete with large ones.

Mr. Penn stated that the electric industry is over 100 years old, and the APPA has been in operation most of that time. He noted that, under the 1992 Federal law, owners must give access to transmission lines. Small utilities therefore have access to whole networks, can choose their suppliers, and cannot be discriminated against. He added that now is a time of rapid changes and a time of opportunity. Mr. Penn stated that it may be harder to start up again ten years in the future, when the lease expires, than it would be at the present time.

In answer to questions from Mr. Morse and Mr. Dunlap about the costs of condemnation, the possibility of an unfavorable ruling, and St. Michaels' ability to operate the system, Mr. Fry stated that St. Michaels has the opportunity to recapture a valuable asset that can only grow in value. He added that the profits







from sales of electricity would be kept in St. Michaels, rather than transferred elsewhere. He stated that there are no risk-free choices, and added that Delmarva is in control of the ultimate value of the St. Michaels system.

Mr. Morse again spoke of the unknown dollar cost of a condemnation suit and the risks involved. Mr. Dunlap brought up the possibility of a media campaign by Delmarva to un-seat the present elected officials in the 1996 election in order to have persons more favorable to them in office. He added that a campaign administrator might be needed. Mrs. Penn stated that one immediate result would be that St. Michaels' customers would experience cheaper rates. She added that a pre-feasibility study can be done at a cost of \$15 or \$20 thousand. This could be presented to the citizens in the media campaign that Delmarva will certainly wage in the event of a suit. The more detailed feasibility study could be conducted later, when it is needed.

Mr. Wilson asked what would happen after the condemnation suit, in the event St. Michaels wins, in regard to St. Michaels' ability to buy the system back and find the personnel with the expertise to operate and maintain it. Mr. Fry stated that many municipals have formed joint-help groups for emergencies, and that many engineering firms have experts who can be hired to operate the system. He suggested that St. Michaels might be able to work out some arrangement with Easton Utilities. Mr. Fry stated that once a unified decision is made, St. Michaels will be ready to go to Delmarva and make demands. Mr. Bassett noted that he has already seen Hugh Grunden, general manager of Easton Utilities, and Mr. Grunden had a lot of interest in the matter.

The members of the APPA were thanked for taking the time and trouble to appear at the meeting.

There being no further business, the meeting was adjourned at 9:30 PM.

  
Roberta H. Marshall







MINUTES OF EXECUTIVE SESSION  
COMMISSIONERS OF ST. MICHAELS AND ST. MICHAELS UTILITIES  
MARCH 27, 1995

A joint session of the Commissioners of St. Michaels and the St. Michaels Utilities Commission was held on Monday, March 27, 1995. Town Commissioners Victor MacSorley, John Dunlap, Fred Mowbrary and David Smith were present, as well as Town Clerk/Manager Andrew Hollis. Utilities Commissioners Harold Bassett, William A. Morse and George Wilson, Jr., were in attendance, with Secretary-Treasurer Roberta Marshall. Attorney H. Michael Hickson and his partner, Ed Banks, also attended the meeting.

The meeting was called to order by Mr. MacSorley at 7:30 PM. Since the meeting involved consultation regarding potential litigation, the meeting was held in Executive Session, under Subsection 10-508 of the Maryland Code.

Mr. MacSorley then turned the floor over to Mr. Bassett, who distributed a Preliminary Outline of Feasibility Study and Next Steps. (Attached to these minutes) Mr. Bassett stressed the significance of the data, and explained it thoroughly.

Mr. Hickson agreed that it was important to get everybody on-line, and also to the benefits of a feasibility study. Mr. Banks then distributed an outline he had prepared. (See attached) He noted that Mr. Bassett had covered many of the same points that appeared in his outline, and that he agreed with many of them. Mr. Banks continued by saying that the Town's first step should be to make a good-faith offer to Delmarva to request renegotiation of the original lease agreement. He added that he thought there was little chance that Delmarva would agree to that.

Step Two of Mr. Banks' plan covered the possibility of arbitration of the next renegotiation of the rent. He suggested that St. Michaels join APPA now in order to list their support to identify a list of acceptable arbitrators and good consultants. Step Three, actual condemnation, raised the issue that this will be the first time such a case has been tried in Maryland, and it must be fully developed with thorough research as to the likelihood of success and the cost to the Town. Step Four set forth the possibility of a suit for breach of lease or a suit to have the lease set aside. Such a suit would be heard in Talbot County before a local judge. A feasibility study would be needed for the suit. Step Five covered suggestions for immediately commencing negotiations to enlist stand-by and start-up assistance from another utility, in the event that the Town will operate its own system. Mr. Banks explained and discussed each step.







In the discussion that followed, it was pointed out that, if St. Michaels took back the system, customers would not have to pay more for electricity than they now pay to Delmarva. It is probable that their rates would actually go down. Mr. Wilson asked what effect a suit for a breach of lease would have on later negotiations. Mr. Banks stated that, in his opinion, there would be none. Mr. Dunlap noted that he is worried over Delmarva's actions in case of litigation, and questioned the stability of the power market. Mr. Banks noted the competition which has been spurred by the federal deregulation in 1992.

Mr. Morse asked the cost of a feasibility study. Mr. Dunlap noted that figures have been quoted from \$20 to \$100 thousand dollars. It was recognized that the Commissioners must know the amount. Mr. Bassett stated that the cost will depend on the amount of detail that is requested, and suggested that the money can come from the Sinking Fund.

When asked for a worse-case scenario, Mr. Hickson noted that there are no guarantees in litigation. He suggested that if the Commissioners would put out an RFP today to lease the system, they would be well aware of what the town is losing with the present lease.

After a question from Mr. Mowbray about his background, Mr. Banks stated that he opened his own practice after working for Delmarva for seven years. He has been in practice for twenty-five years. Approximately 80 percent of his practice is in utility or condemnation specialties.

Mr. Hickson presented additional information, entitled The Future of the St. Michaels Electric Distribution System, which further detailed the problems at hand. (See attached) In closing, Mr. Hickson noted that, if a feasibility study is wanted, the Town should be ready to start on it by July 1, 1995. Mr. Dunlap asked if the various professionals could work together as a team. Mr. Hickson replied that it is up to the attorneys to get the best experts they can, and it is for that reason that the attorneys want input on who the team members are.

Messrs. Banks and Hickson were thanked for attending the meeting. There was no further business, and the meeting was adjourned at 9:25 PM.

  
Roberta H. Marshall







PRELIMINARY  
OUTLINE OF  
FEASIBILITY STUDY  
AND NEXT STEPS

3/27/95



A. Feasibility: What are the benefits and costs associated with establishing a municipally-owned electric system in St. Michaels? - Including:

1. The costs of a negotiated purchase or condemnation in 1995-96, such as legal, engineering, financial and economic assistance and analysis, DPL buyout and other pre-start costs.

2. The costs of power and options available projected over the 1996-2006 period - including the numbers and types of customers and anticipated energy sales.

3. Compare projected revenues under St. Michaels ownership vs DPL retail rates, both total and cost / kwh.

4. Estimate capital requirements (acquisition in #1) for operation, maintenance, capital additions and other costs of business - including assuming bond insurance for \_\_(#) years at \_\_% interest and annual debt service of \$\_\_.

5. Project benefits and compare with costs, such as costs under St. Michaels ownership and operation vs revenues and compare with payments to DPL. Project savings to St. Michaels customers over ten years vs costs of managing and operating, set asides for in lieu of tax payment to Town, debt retirement, TXMSN costs, etc.

6. Perform a sensitivity analysis of major component costs, e.g.s. power supply is roughly two-thirds of operating costs. Assume a range and examine at least high, low and median costs scenarios, ditto DPL TXMSN costs, interest rates, etc. Revisit cost/benefit calculations.

7. Examine financing options and pursue most cost effective.

B. Next Steps:

1. Meet with psc staff to determine procedure for issuing bonds.

2. Vote and appoint/contract with team.

3. If go, prepare press release for the following day - including composition of team.

4. Amend charter to issue revenue bonds after retaining bond counsel.

5. Apply to PSC.



6. Negotiate with DPL.
7. Failing (6) file petition in court by 9/1/95; issue bonds.
8. Select power supply source, arrange for TXMSN, hire o & m contractor and St. Michaels administrator.
9. Operate by \_\_ (month) 1996.







RECOMMENDATION  
TO  
COMMISSIONERS OF ST. MICHAELS  
AND  
ST. MICHAELS UTILITY COMMISSION  
FROM  
BANKS, NASON, HICKSON & SULLIVAN, P.A.

March 27, 1995

Step One: Request renegotiation of the original Lease Agreement

1. it became effective with PSC approval October 14, 1981
2. 13th year ended Oct. 14th 1994; 14th yr. will end Oct. 14th 1995; 15 yr. will end Oct. 14th 1996
3. the "purchase price" as of 7/31/94 would be \$5,662,817; the "purchase price" as of 7/31/06 could well be \$12,000,000 (will DP & L "gold plate" the system in the last 5 yrs. to drive up the price?); the sinking fund strategy will produce about \$10,000,000 assuming at least \$50,000 increases in each of last two five (5) yr. terms
4. Rent:
  - A. 1st 5 yrs., until Oct. 14, 1986 . . . \$230,000
  - B. 2nd 5 yrs., until Oct. 14, 1991 . . . \$260,000
  - C. 3rd 5 yrs., until Oct. 14, 1996 . . . \$310,000
  - D. 4th 5 yrs., until Oct. 14, 2001 . . . ?
  - E. 5th 5 yrs., until Oct. 14, 2006 . . . ?
5. Because it was one-sided; will leave us unable to buy it back; there was no consideration paid for the franchise rights; avoid future arbitration and litigation
6. Albeit not likely to succeed

Step Two: Arbitration

1. but can't commence until April 14th 1996 (6 mos. prior to end of 3rd 5 yr. term on Oct. 14, 1996)
2. join APPA now; enlist their support to identify a list of several acceptable arbitrators and several good consultants, now

Step Three: Condemnation

1. by one of several methods raise this issue soon, (probably prior to arbitration); it presents a nice quandry for Delmarva; in the face of a real condemnation threat, Delmarva wants "top dollar" arguing the St. Michaels's system has great value; during arbitration, however, Delmarva argues St. Michaels' has low value







2. however, a condemnation of this sort (a matter of first impression in Maryland) needs to be fully developed with thorough research and a quantification of likelihood of success; likelihood of appeals; cost to St. Michaels'; undertake research by July 1st 1995

Step Four: Suit for Breach of Lease/Suit to Set Lease Aside

1. authorize an engineering survey (a feasibility study) to determine if Delmarva has lived up to the lease terms; is Delmarva "gold plating" the system to drive up the "purchase price", what is current lease value (economic, engineering and legal should all have input into this "baseline" document)
2. file same in Talbot County Circuit Court if justified by findings revealed in feasibility (probably best filed after arbitration)
3. factually, we may be able to show the agreement was one-sided and can be set aside
4. legally, we may be able to show there was a failure of consideration in that specific dollars were not associated with lease of the franchise itself
5. although the above may present longer odds, it is a relatively easy and relatively inexpensive case to present; it could conclude with a finding that there is no lease agreement currently in effect between the parties; St. Michaels would be free to bargain anew with Delmarva or some other utility

Step Five: Negotiate a Stand-By Agreement with another Electric Utility

1. immediately commence negotiations to enlist stand-by and start-up assistance from another utility, in the event St. Michaels is suddenly confronted with the need to operate it's system (the wholesale market at present would appear to sustain such negotiations)
2. such an arrangement would expose St. Michaels to new views, insights and resources not only during stand-by period but later at start-up (another "suitor" to keep Delmarva competitive)







THE COMMISSIONERS OF ST. MICHAELS  
AND  
THE ST. MICHAELS UTILITIES COMMISSION  
THE FUTURE OF THE ST. MICHAELS ELECTRIC  
DISTRIBUTION SYSTEM

MARCH 27, 1995

I. WHAT IS AT STAKE (WHY LOOK AT THE QUESTION)?

A. What is the Town receiving from the Lease:

1. An unrealistic hope of purchasing back the system.
2. What use is the Town able to make of that money?

B. What benefits can the Town get by recovering the system?

1. Cash profits to the Town/lower electric rates/lower taxes - In what amount?.
2. Electric users outside Town help to support the Town.
3. Electric revenues stay in Town - multiplies effect on economy.
4. Jobs for people who live in Town.
5. Town controls its electric destiny.

II. THE DECISION-MAKING PROCESS - A FEASIBILITY STUDY

A. WHAT QUESTION NEEDS TO BE ANSWERED?

1. WHICH OF THE TWO ALTERNATIVES SHOULD THE TOWN CHOSE?
  - a. ARBITRATION ALONE - Continue to be controlled by the Lease and hope the Town can buy its system back in ten (10) more years.
    - (1) How much money does the Town have to buy back its system?
      - (a) \$2.2 million now.
      - (b) \$9.9 million projected at the end of Lease.
    - (2) If the Town cannot afford to buy back its system at the end of ten (10)







years, the Town in effect sold its system fifteen (15) years ago. No money will flow in after the Lease expires.

- (3) Under the best of circumstances, the Town will give back to DP&L all of the money DP&L has paid to the Town during the twenty-five (25) year term of the lease - the Town gets nothing except maintenance of its system for twenty-five (25) years.

b. LITIGATION IN COMBINATION WITH ARBITRATION - Try to recapture control of the electric distribution system now; DP&L and time are working against the Town.

- (1) Advantages to the Town if litigation is successful - are stated in section I.B., above.
- (2) Advantages to Town if litigation not successful (is this a no lose situation - the dollars involved make the expenditure worth it to substantially increase rent payments over ten years):
  - (a) Obtain information for use in arbitration.
  - (b) Possibly back DP&L into corner re values and profits in condemnation vs. arbitration for Lease arbitration.
  - (c) Possibly drive DP&L to renegotiate Lease.

B. WHAT INFORMATION IS NEEDED TO ANSWER THE QUESTION (by area of expertise)?

1. What is the potential increase in economic benefit to the Town?
2. How should the Town proceed?
3. What are the chances of success?
4. What will it cost?
5. Request informal studies only so that information is not discoverable in litigation. No written reports! No memoranda to experts' files! No recorded executive sessions!

C. WHO WILL BE NEEDED TO FURNISH THE INFORMATION (by area







of expertise)?

1. Law.
  - a. Bases of legal attack.
  - b. Selection and direction of other experts.
  - c. Chances of success.
  - d. Cost estimate of services needed through trial.
2. Engineering.
  - a. Survey of system - extent and condition.
  - b. Appraisal of whether system has been managed reasonably; e.g., gold plating, lack of maintenance, engulfing the system.
  - c. Cost estimate of services needed through trial.
3. Economics.
  - a. Financial benefits to Town to regaining control of Lease, as opposed to status quo.
  - b. Financial forecasts for appraisals and valuations.
  - c. Work relative to Lease arbitration process.
  - d. Cost estimate of services needed through trial.
4. Appraisal/Valuation.
  - a. Valuation of the system/remaining value of Lease to be condemned.
  - b. Cost estimate of services needed through trial.
5. Finance.
  - a. Advise concerning financing the purchase of the system, when success appears to be within sight.
  - b. Cost estimate of services needed through trial.
6. Public relations.
  - a. Cost estimate of services needed through trial.

D. WHAT WILL IT COST TO OBTAIN THE INFORMATION?

1. Estimate - \$\_\_\_\_\_.

E. IS THERE ENOUGH TIME BEFORE THE ARBITRATION?

1. A year and a half is enough time, but not a lot of time.







<<<<<<<<<THIS IS ALL YOU NEED TO DECIDE AT THIS TIME>>>>>>>>>>

A. IF IT IS A DUEL, WHAT WEAPON DO WE CHOSE? It will not be a duel; it will be war - use the best weapons available at the time, depending on the circumstances as they develop.

a. Advantages:

- b. Disadvantages:

- 4-







- (4) May raise an issue which DP&L could appeal.

2. SUIT FOR BREACH OF LEASE - in Circuit Court for Talbot County:

- a. Advantages:

- (1) Would not require the Town to pay DP&L for unused portion of Lease.
    - (2) May not require Town to compensate DP&L for improvements to the system.

- b. Disadvantages:

- (1) It is unlikely that DP&L has done anything so gross as to constitute a breach of the Lease that would end the lease - but the cost of this action taken in conjunction with others is relatively small - but you will never know if you do not investigate.

3. OTHER POSSIBLE WEAPONS:

- a. Suit to set aside the Lease as unconscionably one-sided.
  - b. Other actions.

4. VOLUNTARY RE-NEGOTIATION OF THE LEASE WITH DP&L based on the threat of litigation or ongoing litigation.

- B. PUBLIC RELATIONS

1. Hire a professional.
  2. Take the public relations initiative.
  3. Tell the voters what you plan to do, and why it is in their best interest.
  4. All Commissioners must stick together; DP&L will try to divide and conquer.
  5. Deny DP&L representatives the opportunity to talk to you in any setting except as a group.

- C. FINANCING THE LITIGATION







1. Charter amendment required to use Lease payments.

IV. WHAT HAPPENS IF THE TOWN WINS? Isn't that what we want? Are we afraid to win? If so, do not fight the battle.

A. You will not be alone.

1. Join American Public Power Association (APPA) to network with other towns that have started electric systems. (Cost less than \$500 per year.
2. Hire experts who have the knowledge to advise you.
3. Get help from neighbors who also have resisted DP&L.
4. Lease the system - The law has changed to give you high bargaining power.
  - a. There will be more bidders - under the law in 1980, DP&L was the only available supplier.
  - b. Negotiated price that reflects Town's current good bargaining position.
  - c. Put in price escalation clause.
  - d. Put in safeguards for the Town.

B. Financing options:

1. Use Town's sinking fund (requires charter amendment).
2. Bridge loan.
3. Bond issuance through State of Maryland.
4. Bond issuance on open market (requires separate bond counsel).
  - a. General Revenue Bonds.
  - b. Anticipation Bonds.

C. Start-up with assistance from others by contract.

1. Use operating or maintenance agreement until the Town can gradually acquire the needed employees, equipment and supplies.
2. Use cooperative assistance agreement to get assistance in extraordinary circumstances - all







utilities do this.

D. Purchase of electric power on open wholesale market - best market conditions and legal authority now exist.

1. There are many ways to purchase power, and many sources.

E. At this time you do not need to decide whether to lease or operate the system.

1. You only need to know if it makes good economic sense for you to regain control.

2. You can avoid operating the system by leasing it to others on better terms than exist under the present lease.

3. You can get help and phase in your new operation of the system if you chose to operate it.







APRIL 5, 1995

A meeting of the St. Michaels Utilities Commission was held in the Town Office Meeting Room at 9:30 AM on Wednesday, April 5, 1995. Members present were Commissioners Harold Bassett, William A. Morse and George Wilson, Jr., and Secretary-Treasurer Roberta Marshall.

The minutes of all meetings held since February 1, 1994, were approved as written and distributed.

Motion was then made by Mr. Morse, seconded by Mr. Wilson and passed unanimously, to go into Executive Session, under Subsection 10-508 of the Maryland Code.

#### Minutes of Executive Session

After thorough discussion, it was decided that Mr. Bassett should contact Mr. Hennessey, of NationsBank, to express St. Michaels' interest in participating in the MEDCO (Maryland Economic Development Corporation) pool for municipalities. This will merely show St. Michaels' interest in the pool, and will in no way obligate the Town. It was decided to name a figure of \$1 million for each year, contingent to the Town Commissioners' decision of whether or not to try to condemn the lease.

Discussion then turned to the two recommendations that must be made to the Town Commissioners: the feasibility study, and the choice of legal counsel.

A full discussion ensued regarding the relative merits of the two law firms. After this lengthy discussion, it was agreed that Mr. Bassett should contact both firms and get some kind of an estimate of the time necessary and the fees involved. The Utilities Commissioners can then meet again to make their final decision. It was realized that the Town Commissioners want to discuss this at their next meeting, and that time is short. Every effort will be made to get these figures as soon as possible.

The discussion then returned to the merits of the two law firms. Mr. Wilson noted that a case before an arbitrator is much different than a case tried before a judge, when the attorney is bound to the side of those he represents. It was agreed that, no matter who represents the town, an effort should be made to investigate who will hear the case and where it will be heard.

Mr. Morse pointed out that the Board's first step is to choose an attorney to get the feasibility study under way, since a feasibility study may not







recommend that the Town go to condemnation. Mr. Bassett enumerated the various experts necessary to complete the study, and will try to get estimates from the attorneys on those costs when he contacts the two firms. It was agreed that a law firm should lead the study.

Mr. Hollis will be asked to inform the Commissioners that the Utilities want to recommend that the Town go forward with the feasibility study, and that the recommendation for an attorney to lead the study will be given as soon as possible.

Mr. Bassett then noted the options that are open to the Town in regard to the lease:

1. Condemnation
2. Renegotiate the lease  
same problems as now - pay for value and law suit
3. Do nothing  
same problems as renegotiation at end of lease
4. Breach of lease suit
5. Arbitration  
delays problems to end of lease

Mr. Bassett promised to make the phone calls to the attorneys and to NationsBank at once.

The possibility of a membership in the American Public Power Association was discussed. Mr. Bassett will call them to find out how much the dues are, and to see if they have anything in their files regarding condemnation proceedings.

Mr. Bassett reported that he had finally gotten in touch with Mr. Corkran, who had been in Florida. It was recognized that Mr. Corkran would be a good candidate for a hired administrator in case the Town goes to condemnation, if he could be persuaded to do so.

Following a discussion of the Sinking Fund, and its management over the years, the meeting was adjourned at 10:40 AM.

  
Roberta H. Marshall, Secretary-Treasurer







APRIL 11, 1995

A meeting of the St. Michaels Utilities Commission was held in the Town Office Meeting Room on Tuesday, April 11, 1995. Members present were Harold Bassett, William A. Morse, George W. Wilson, Jr., and Roberta H. Marshall. The meeting was called to order by Mr. Bassett, at 9:35 AM.

On a motion by Mr. Morse, seconded by Mr. Wilson, the group immediately went into Executive Session to discuss financial matters and possible litigation.

#### Minutes of Executive Session

Mr. Bassett then reported that he had contacted John Hennesey of NationsBank about their Municipal Fund Pool. Mr. Hennesey assured him that the Town would not be committed to borrow funds by expressing their interest in reserving them at this time, although a proposed amount must be submitted in writing. Mr. Bassett recommended that an amount of \$10 million might be a realistic figure to reserve, pending the decision of whether or not to go for condemnation of the lease. Mr. Morse and Mr. Wilson agreed, as long as the Town is not bound to anything, and as long as the town's actions would not inconvenience the bank.

Mr. Bassett then reported on his talks with Mr. Duncan and Mr. Hickson. He stated that Mr. Hickson would not give any sort of estimate on what his firm might charge, except that his hourly rate would be \$160 or \$170 an hour. He also would not give an estimate on a feasibility study. Mr. Bassett added that they had quite a good conversation, particularly on the possibility of a suit against Delmarva as an alternative to, or at the same time as, condemnation. Mr. Hickson repeated the statements he had made at his earlier meeting with the Town Commissioners and the Utilities: that the possibility of winning a suit is a long-shot, and that condemnation is also not a sure thing. When speaking of Mr. Duncan, Mr. Bassett said his rate will be about \$200 an hour. He added that Mr. Duncan discussed three levels of feasibility studies:

- (1) a preliminary study which would give a broad overview, with many estimates rather than hard numbers, would take about one month, and would cost about \$50,000,







(2) an options study which would look at the costs and benefits of the various options, would focus mainly on the legal and economic feasibility without hiring an engineering firm, would take about two months and would cost about \$100,000, or

(3) a full feasibility study which would cover all possibilities, would take three to four months and possibly longer, and would cost about \$300,000.

A thorough discussion about the various studies followed Mr. Bassett's report. Mr. Bassett also brought up the need to budget for arbitration expenses, in case arbitration is necessary at the next lease negotiation, which will be in 1996. It was pointed out by Mr. Wilson that the Town Commissioners need basic information on their options at this point, rather than a full feasibility study which is aimed at condemnation. All three Commissioners favored the recommendation of the \$100,000 option study, noting that the Town Commissioners would have to understand that there would be further costs to be incurred later if further action is considered. Mr. Wilson then made a motion to proceed along the line of the option study that will detail the various options, the associated costs, and the relative benefits of the various options open at this point in time. The motion was seconded by Mr. Morse, and passed with the unanimous vote of the board.

The discussion then turned to the matter of the Utility's recommendation of legal counsel for the study. After discussion, a motion was made by Mr. Morse to recommend Mr. Hickson. The motion was seconded by Mr. Wilson, and carried by a two to one vote, with Mr. Bassett opposed.

Mr. Bassett then pointed out that a Scope of Work, which lists the options that the group wants covered in the study, is necessary. Mr. Morse stated that he had an appointment that he could not break, and it would be necessary for him to leave at this point. It was decided that Mr. Wilson and Mr. Bassett would draft the Scope of Work. After Mr. Morse's departure, Mr. Bassett and Mr. Wilson thoroughly discussed the points needed in such a document. After the discussion, Mr. Bassett suggested that the Utility's next move should be to meet with Hickson and Banks and have an exploratory session with them, tell them what is desired, and get them to react to it. They could then draft a scope of work of what they think needs to be done, within the context of what the Utility desires. After any changes or additions are made by the Utilities, the firm could possibly give a firm price for the project. It was decided that Mr. Bassett will contact Town Manager Hollis and ask him to contact Mr. Hickson about a meeting during the week of March 25.







Mr. Bassett stated that he will also speak with Mr. Hollis about getting the Utilities a membership in the American Public Power Association, and will also talk to Mr. Corkran to see if he has ever talked to Mr. Grunden of Easton Utilities about the possibility of Easton providing electricity to St. Michaels sometime in the future.

Before adjournment, it was decided that Mr. Bassett will write the first draft of the Scope of Work. It will then be sent to Mr. Morse and Mr. Wilson for their approval, changes, or additions, and a copy will then be sent to Mr. Hickson for his response.

There being no further business, the meeting was adjourned at 11:10 AM.

  
Roberta H. Marshall, Secretary-Treasurer







December 1, 1995

The St. Michaels Utilities Commission and Delmarva representatives held their annual meeting to discuss the 1995 lease report at noon on Friday, December 1, 1995 at the Town Dock Restaurant. Utilities Commissioners William A. Morse, George Wilson, Jr., and Murphy Bird were in attendance, as well as Town Commissioner Fred Mowbray, Town Clerk/Manager Andrew Hollis and Roberta H. Marshall. Mr. Bird was recently appointed to the Utilities Commission to replace Mr. Bassett, who resigned.

Delmarva was represented at the meeting by Senior Vice President Wayne Lyons, Central Division Vice President Doug Boyce, Cambridge District Manager Jim Warren and St. Michaels District Manager Larry Wood.

The Delmarva report was thoroughly discussed, and copies of reports prepared by Mrs. Marshall concerning the growth of the system and Delmarva capital investments on the system during the lease period was distributed and discussed.

Mr. Lyons noted that, according to the lease agreement, negotiations of the rental amount can begin in April, and expressed his hope that an amicable agreement can be reached. His sentiments were echoed by all those present.

Following the luncheon, the meeting was adjourned.

  
Roberta H. Marshall, Secretary-Treasurer







# ST. MICHAELS UTILITIES COMMISSION

## GROWTH OF SYSTEM DURING LEASE PERIOD: 1981 THROUGH 1994

	<u>Year Ended 7/31/81</u>		<u>Year Ended 7/31/95</u>	
	<u>Cust.</u>	<u>KWH Used</u>	<u>Cust.</u>	<u>KWH Used</u>
Residential	2,071	22,249,920	2,916	41,138,661
Commercial & Industrial	320	13,369,681	482	21,432,337
Street Lighting*	<u>1</u>	<u>468,501</u>	<u>6</u>	<u>131,997</u>
Total	2,392	36,088,102	3,404	62,702,995

\* 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 Delmarva's Commercial & Industrial sales.

### Increase in Customers

<u>Category</u>	<u>Number Added</u>	<u>% of Increase</u>
Domestic	845	40.8
Commercial & Industrial	162	50.6
Overall	1,012	42.3

### Increase in KWH sales

<u>Category</u>	<u>KWH Increase</u>	<u>% of Increase</u>
Domestic	18,888,741	84.9
Commercial & Industrial	8,062,656	60.3
Overall	26,614,893	73.7

Note: Statistics for street lighting are not included in the above categories, but they are included in overall totals.



## ST. MICHAELS UTILITIES COMMISSION

### DELMARVA'S CAPITAL INVESTMENTS IN ST. MICHAELS SYSTEM BREAKDOWN BY YEAR

<u>Year</u>	<u>Net Expenditures</u>	<u>Total to Date</u>
1982	\$482,489	\$ 482,489
1983	560,263	1,042,752
1984	492,058	1,534,810
1985	598,555	2,133,365
1986	603,475	2,736,840
1987	335,390	3,072,230
1988	214,683	3,286,913
1989	787,453	4,074,366
1990	392,090	4,466,456
1991	—	—
1992	496,688	4,963,144
1993	220,997	5,184,141
1994	478,676	5,662,817
1995	115,435	5,778,252

Note: Separate figures for 1991 are not available, but have been included in the 1992 amount.

Major costs by year were as follows:

1982: Miles River Bridge submarine cable

Increase in capacity, Route 33 to Tunis Mills

Fuse coordination: Bloomfield, Grace Street and Gloria Avenue substations

Tree trimming (Federal Energy Regulations allow this on the first major tree-trimming on a line.)

1983 Tree trimming

Correcting unsafe conditions created by banked transformers

Additional 600 amp tie circuit between Grace Street and Bloomfield substations

Construction related to new business (\$188,000)

1984: Replacement of defective poles and related fixtures

Installation of alternate underground feeder in Martingham, miscellaneous underground replacement elsewhere

New business (\$290,000)



- 1985: Miscellaneous underground system improvements  
Replacement of deteriorated poles  
Phase 1 of street light conversion  
New business (\$230,000)
- 1986: Miscellaneous distribution improvements  
Miscellaneous underground cable replacements  
Underground exit feeder at Grace Street Substation  
Phase 2, street lights  
Additional 69-12 KV 10MVA transformer and associated equipment at  
Grace Street Substation  
New business (\$300,000)
- 1987: Phase 3, street lights  
Miscellaneous distribution improvements  
Transformers (It is DPL's practice to charge out transformers as soon as  
they are placed in inventory. Depreciation also starts at that time.)  
New business (\$233,704)
- 1988: Phase 4, street lights  
Distribution transformers  
Miscellaneous distribution improvements  
New transformers  
New business (\$188,061)
- 1989: Miscellaneous distribution improvements  
Rebuilding and replacement of #2 aluminum underground cable,  
Copperville Road and Doncaster Road  
New transformers  
Phase 5, street lights  
New business (\$180,597)
- 1990: Miscellaneous distribution improvements  
Rebuilding and replacement of #2 aluminum 15 KV underground cable,  
Marengo Road and Solitude Road  
New transformers  
New business (\$171,324)
- 1991: Information not available



1992: Miscellaneous distribution improvements

Replacement of Arcadia Shores overhead and underground lines  
Reconductoring portion of circuit along Route 33 between Bloomfield and  
Grace Street substations, including Oak Creek crossing  
New transformers  
New business (\$134,487)

1993: Miscellaneous distribution improvements

Miscellaneous replacement of #215 KV underground cable  
Reconductoring Pea Neck Road  
Installation of transformers  
New business (\$65,459)

1994: Miscellaneous distribution improvements

New transformers  
New business (\$86,261)

1995: Miscellaneous distribution improvements

Transformers  
New business (\$147,748)



May 6, 1996

A luncheon meeting was held at the Town Dock Restaurant at 12:30 p.m. In attendance were Ed Banks, attorney, R. Andrew Hollis, Town Clerk/Manager, Jean R. Weisman, Asst. Town Manager, and Jerry Elliot and Wayne Lyons from Delmarva Power.

After lunch, items discussed included the recent purchase of the COPCO electric system by Delmarva and how it may effect the lease negotiations. Also discussed was the article in Public Power Magazine regarding the lease, and the study done by RMI for the system.

Submitted,

A handwritten signature in cursive script that reads "Jean R. Weisman".

Jean R. Weisman  
Asst. Town Manager

util596







June 3, 1996

A meeting was held at 10:00 a.m. in the St. Michaels Town Office to discuss the lease negotiations between St. Michaels and Delmarva Power and Light. Present were Wayne Lyons, Jerry Elliot and Peter Clarke representing Delmarva Power, and Michael Hickson, Edward Banks, R. Andrew Hollis and Jean Weisman.

There was discussion regarding the sale of the COPCO electric system to DP&L, the possible need for some modifications to the lease in regard to a better method for rent calculation, the need for an office in St. Michaels.

Another meeting was scheduled for July.

Submitted,

A handwritten signature in dark ink, appearing to read "Jean R. Weisman". The signature is fluid and cursive, with the first name "Jean" being more prominent.

Jean R. Weisman  
Asst. Town Manager







June 18, 1996

The Commissioners and the Utilities Commission met with town attorneys H. Michael Hickson and Edward Banks at 3:30 p.m. in the St. Michaels Town Office. In addition to the attorneys, present were Utilities Commission members Murphy Bird, Victor MacSorley and Pat Morse. Commissioners present were Steve Hope, Fred Mowbray, David Smith and George Wilson, Jr. Also present were Town Manager R. Andrew Hollis and Asst. Town Manager Jean R. Weisman.

Mike Hickson introduced Ed Banks and gave a history of the Utilities lease with Delmarva Power.

Mr. Banks discussed the alternatives to the present lease and the progress made in the first two negotiation meetings held with DP&L representatives.

The report from RMI was discussed. It was decided that at this point negotiations will be continued with Ed Banks, Mike Hickson, Andy Hollis and Jean Weisman in attendance.

Submitted,

  
Jean R. Weisman  
Asst. Town Manager







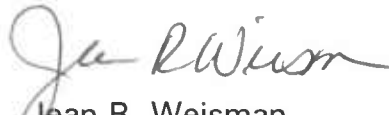
August 6, 1996

A meeting was held at 10:30 a.m. in the offices of Banks, Nason Hickson & Cockey. Present were Jerry Elliott and Wayne Lyons representing Delmarva Power and Ed Banks, Mike Hickson, Andy Hollis and Jean Weisman representing the town.

Town concerns discussed were: advise and consent of the Town for capital expenditures; detailed description of and method of depreciation of the system; concerns regarding DP&L's "self-insurance"; the criteria for choosing an arbitrator should the need arise; a better formula for calculating rent; and an end of the lease plan.

Delmarva concerns discussed were: the St. Michaels Office closing; a better formula to calculate the rent in the next ten years; and a joint response to the Public Power article.

Submitted,



Jean R. Weisman  
Asst. Town Manager







September 5, 1995

- A meeting was held at 10:30 a.m. in the St. Michaels Town Office. Present were Mike Hickson, Ed Banks, Andy Hollis and Jean Weisman representing the Town and Jerry Elliot and Wayne Lyons representing Delmarva Power.

Delmarva's proposal dated August 29, 1996 was reviewed. Each of the ten points of the proposal were discussed at length. It was agreed that a letter of extension of the negotiating period would be drafted. The next meeting was scheduled for late September.

Submitted,

A handwritten signature in cursive script, appearing to read "Jean R. Weisman".

Jean R. Weisman  
Asst. Town Manager



June 11, 1998

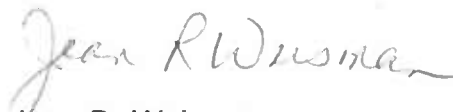
A meeting of the St. Michaels Utilities Commission was held on Thursday, June 11, 1998 at 2:00 p.m. in the St. Michaels Town Office. Present were Utilities Commission members Murphy Bird, Victor MacSorley, and William Morse. Also present was Asst. Town Manager Jean Weisman.

The first order of business was the election of officers. Mr. Bird made a motion to appoint Victor MacSorley President. The motion was seconded by Mr. Morse and passed unanimously.

There was brief discussion of the proposed lease amendment, a copy of which is attached and made a part of these minutes. Mr. Bird made a motion to accept the lease amendment as written. The motion was seconded by Mr. Morse and passed unanimously.

There being no further business the meeting was adjourned.

Submitted,

A handwritten signature in cursive script, reading "Jean R. Weisman".

Jean R. Weisman  
Asst. Town Manager



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Minutes of Joint Meeting  
Commissioners of the St. Michaels and St. Michaels Utilities Commission  
March 16, 2004

A meeting of the St. Michaels Utilities Commission was called to order by member Victor MacSorley on Tuesday, March 16, 2004 at 9:20 a.m. in the Edgar M. Bosley, Jr. Municipal Building, 300 Mill Street, St. Michaels, MD. Present were Utilities Commission members Victor MacSorley, Jim Knepper, and Howard Eckel, Town Commissioners Philip Dinkel and Barry Gillman. Also in attendance were Town Attorney's H. Michael Hickson and Ed Banks, Electric Utility Consultant Dave Downes, Town Manager Cheril Thomas and Project Manager Jean Weisman.

The first order of business was election of officers. Mr. Knepper made a motion to appoint Victor MacSorley as Chairman. The motion was seconded by Mr. Eckel and passed unanimously. Mr. MacSorley made a motion to appoint Jim Knepper as Vice Chairman. The motion was seconded by Mr. Eckel and passed unanimously.

Since there was not a quorum of the Town Commissioners present, it was not an official meeting and there was no requirement to declare an executive session of the Town Commissioners.

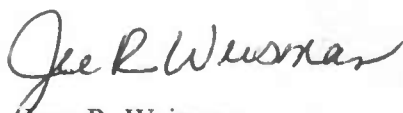
Mr. Knepper made a motion to adjourn the public meeting of the St. Michaels Utilities Commission into executive session to discuss legal and other matters relating to the lease of the electric distribution system from the Town to Delmarva Power & Light Co., T/A Conectiv, and the possible legal options available to the Town as the end of the lease term approaches, all pursuant to the following subsections of Maryland Code, State Government Article, § 10-508 (a):

- (3) To consider the acquisition of real property for a public purpose and matters directly related thereto.
- (4) To consider a preliminary matter that concerns the proposal for a business or industrial organization to locate, expand, or remain in the State.
- (5) To consider the investment of public funds.
- (6) To consider the marketing of public services.
- (7) To consult with counsel to obtain legal advice on a legal matter.
- (8) To consult with staff, consultants, or other individuals about pending or potential litigation.

The motion was seconded by Mr. Eckel and passed unanimously.

Discussion then turned to the end of the Town's lease with Delmarva Power & Light Co. T/A Conectiv. Mr. Hickson, Mr. Banks and Mr. Downes explained the options and legal issues related thereto available to the Town regarding the end of the lease. No action was taken. Following the discussion the meeting was adjourned at 12:30 p.m.

Submitted,



Jean R. Weisman  
Project Manager



It is the policy of the United States to support the people of the Republic of China in their struggle for freedom and democracy. This policy is based on the principle that all peoples have the right to self-determination and to the free choice of their government.

The United States is committed to the principle of non-interference in the internal affairs of other countries. It will not support any action that would undermine the sovereignty or territorial integrity of the Republic of China.

The United States is committed to the principle of peaceful resolution of international disputes. It will not support any action that would threaten the peace and stability of the Asia-Pacific region.

The United States is committed to the principle of mutual respect and equality. It will not support any action that would discriminate on the basis of race, religion, or ethnicity.

The United States is committed to the principle of transparency and accountability. It will not support any action that would undermine the rule of law or the integrity of the judicial system.

The United States is committed to the principle of human rights. It will not support any action that would violate the basic rights and freedoms of the people of the Republic of China.

The United States is committed to the principle of international law. It will not support any action that would violate the principles of international law or the Charter of the United Nations.



Minutes of Joint Meeting  
Commissioners of the St. Michaels and St. Michaels Utilities Commission  
April 29, 2004

A joint meeting of the Commissioners of the St. Michaels and the St. Michaels Utilities Commission was called to order by President Robert Snyder on Thursday, April 29, 2004 at 9:40 a.m. in the Edgar M. Bosley, Jr. Municipal Building, 300 Mill Street, St. Michaels, MD. Present were Town Commissioners Robert Snyder, Philip Dinkel, Barry Gillman, and Marie Wroten; and Utilities Commission members Victor MacSorley and Jim Knepper. Also in attendance were Town Attorney H. Michael Hickson, Electric Utility Consultant Dave Downes, Town Manager Cheril Thomas and Project Manager Jean Weisman.

Mr. Gillman made a motion to adjourn the public meeting of the St. Michaels Utilities Commission into executive session to discuss legal and other matters relating to the lease of the electric distribution system from the Town to Delmarva Power & Light Co., T/A Conectiv, and the possible legal options available to the Town as the end of the lease term approaches, all pursuant to the following subsections of Maryland Code, State Government Article, § 10-508 (a):

- (3) To consider the acquisition of real property for a public purpose and matters directly related thereto.
- (4) To consider a preliminary matter that concerns the proposal for a business or industrial organization to locate, expand, or remain in the State.
- (5) To consider the investment of public funds.
- (6) To consider the marketing of public services.
- (7) To consult with counsel to obtain legal advice on a legal matter.
- (8) To consult with staff, consultants, or other individuals about pending or potential litigation.

The motion was seconded by Mr. Dinkel and passed unanimously.

Mr. Knepper then made a motion to adjourn the public meeting of the St. Michaels Utilities Commission into executive session for the reasons and pursuant to the same authority as stated above. The motion was seconded by Mr. MacSorley and passed unanimously.

Discussion then turned to the end of the Town's lease with Delmarva Power & Light Co. T/A Conectiv. Mr. Hickson and Mr. Downes explained the options and legal issues related thereto available to the Town regarding the end of the lease. No action was taken. Following the discussion the meeting was adjourned at 11:35 a.m.

Submitted,

  
Jean R. Weisman  
Project Manager



THE UNIVERSITY OF CHICAGO  
DIVISION OF THE PHYSICAL SCIENCES  
DEPARTMENT OF CHEMISTRY  
CHICAGO, ILLINOIS 60637

TO THE EDITOR:  
I have the honor to acknowledge the receipt of your letter of the 10th inst. regarding the matter mentioned therein. I am sorry that I cannot give you a more definite answer at this time, but I am sure that you will understand my position.

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Minutes of Joint Meeting  
Commissioners of the St. Michaels and St. Michaels Utilities Commission  
May 6, 2004

A joint meeting of the Commissioners of St. Michaels and the St. Michaels Utilities Commission was called to order by President Robert Snyder on Thursday, May 6, 2004 at 1:30 p.m. in the Edgar M. Bosley, Jr. Municipal Building, 300 Mill Street, St. Michaels, MD. Present were Town Commissioners Robert Snyder, Philip Dinkel, Barry Gillman, Rob Noble and Marie Wroten; and Utilities Commission members Victor MacSorley, Jim Knepper, and Howard Eckel. Also in attendance were Town Attorney H. Michael Hickson, Electric Utility Consultant Dave Downes, Town Manager Cheril Thomas and Project Manager Jean Weisman.

Mr. Gillman made a motion to adjourn the public meeting of the St. Michaels Utilities Commission into executive session to discuss legal and other matters relating to the lease of the electric distribution system from the Town to Delmarva Power & Light Co., T/A Conectiv, and the possible legal options available to the Town as the end of the lease term approaches, all pursuant to the following subsections of Maryland Code, State Government Article, § 10-508 (a):

- (3) To consider the acquisition of real property for a public purpose and matters directly related thereto.
- (4) To consider a preliminary matter that concerns the proposal for a business or industrial organization to locate, expand, or remain in the State.
- (5) To consider the investment of public funds.
- (6) To consider the marketing of public services.
- (7) To consult with counsel to obtain legal advice on a legal matter.
- (8) To consult with staff, consultants, or other individuals about pending or potential litigation.

The motion was seconded by Mr. Dinkel and passed unanimously.

Mr. Knepper then made a motion to adjourn the public meeting of the St. Michaels Utilities Commission into executive session for the reasons and pursuant to the same authority as stated above. The motion was seconded by Mr. Eckel and passed unanimously.

Discussion then turned to the end of the Town's lease with Delmarva Power and Light. T/A Conectiv. Mr. Hickson and Mr. Downes explained the options and legal issues related thereto available to the Town regarding the end of the lease. Following the discussion the Utilities Commission members agreed to hold a public meeting on Thursday, May 20, 2004, to consider and make recommendations to the Town Commissioners regarding the Town's options relative to the Electric Utility Lease. The Town Commissioners agreed to hold a public meeting



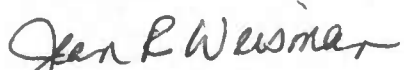




on Tuesday, May 25, 2004, to consider the recommendations of the Utilities Commission. No other action was taken by either the Town Commissioners or the Utilities Commissioners.

The meeting was adjourned at 4:00 p.m.

Submitted,

A handwritten signature in cursive script that reads "Jean R. Weisman".

Jean R. Weisman  
Project Manager



THE UNIVERSITY OF CHICAGO  
LIBRARY

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May 20, 2004

A meeting of the St. Michaels Utilities Commission was called to order at 7:30 p.m. in the Edgar M. Bosley, Jr. Municipal Building, 300 Mill Street, St. Michaels, Md by Chairman Victor MacSorley. Utilities Commission members Howard Eckel and James Knepper were also present. Also in attendance were Town Commissioners Robert Snyder, Philip Dinkel, Barry Gillman and Robert Noble, Town Attorneys H. Michael Hickson and Edward Banks, Utilities Consultant David Downes, Town Manager Cheril Thomas and several guests.

Mr. MacSorley explained that the Town owns an electric utility that was leased, for 25 years, beginning in 1981 to Delmarva Power and Light, now known as Conectiv. The purpose of the Utilities Commission is to oversee the operations of the electric utility and advise the Town Commissioners in major decisions involving the electric utility system. He explained that the Lease ends in October 2006 and the Town must determine, consider and explore the options available to the Town, and then decide which option best serves the Town.

Mr. MacSorley stated that the purpose of the meeting was to receive information describing the St. Michaels Electric Utility; to receive an explanation of the Lease terms, and how the Lease has evolved since 1981; to receive an explanation of the Electric Distribution System, and how the Electric Distribution System has evolved since 1981; to receive an explanation of the options available to the Town involving the Electric Utility; to receive an explanation that bears on the question of whether the Town should exercise its option to sell the Town's Electric Distribution System to Conectiv according to the terms of the Lease, as amended; and for the Utilities Commission to make a recommendation to the Town Commissioners as to whether it should exercise the option to sell the Town's Electric Distribution System to Conectiv.

Mr. MacSorley introduced and gave a brief resume of the scheduled speakers- Mike Hickson- Town Attorney, Edward Banks, Mr. Hickson's law partner, and David Downes, engineering and management consultant. Mr. MacSorley then called upon Mr. Hickson.

Mr. Hickson gave a physical description of the system. He then explained the history of the St. Michaels Electric Utility prior to 1981. Mr. Hickson then explained the Lease between St. Michaels Utilities and Delmarva Power and Light (Conectiv) up to 1998. He then explained the lease amendment between the Town and Delmarva Power and Light.

Mr. Hickson then explained the options available to the Town as the Lease nears its end. The options are as follows:

- 1) Sell the system to Conectiv for the price stipulated in the lease
- 2) Retain the System and seek competitive bids from prospective purchasers
- 3) Retain the System and lease it again to Conectiv or another utility
- 4) Retain the System and operate it as a traditional electric utility (selling and delivering electricity) through any combination of contracted and/or in-house services.

Mr. Hickson then turned the meeting over to David Downes of Downes Associates. Mr. Downes gave an explanation of electric deregulation and its effect on customers. Mr. Downes also explained the "Municipal Exemption" to retail deregulation. Mr. Downes explained the options available to the town. He explained some of the benefits of the Town operating the electric utility. He explained that the immediate question for the Town is whether to sell the system to Conectiv or to retain the system and explore the options. A copy of a slide presentation is attached and made a part of these minutes







Mr. Knepper explained the involvement of the Utilities Commission in the process to date and asked questions about the municipal exemption, net operating margin, the zero coupon bonds, the lease renegotiations, and the condition of the system. Mr. Eckel thanked Mr. Hickson, Mr. Banks and Mr. Downes for the high quality of their work.

There was a general discussion regarding electric deregulation, electric markets, electric pricing, burying wires, the impact of the addition of 300+ houses on the system, and the capacity of the system. Following the discussion, Mr. MacSorley asked for any further comments. Hearing none, Mr. Knepper made a motion to close the public meeting. The motion was seconded by Mr. Eckel and passed with a unanimous vote.

Mr. MacSorley stated that the Utilities Commission had a recommendation to make to the Town Commissioners regarding whether to retain the electric system or to sell the electric distribution system to Conectiv. There was brief discussion regarding the ability of the Town to sell the system at a later date if the Town chose to retain the electric distribution system at this time.

Mr. Knepper made a motion that the Utilities Commission make a recommendation to the Commissioners of St. Michaels that the Town decline to exercise the option to sell the Town Electric Distribution system to Conectiv at the terms stated in the amended lease, and that the Town continue to look at the it's options for the future. The motion was seconded by Mr. Eckel and passed with a unanimous vote.

There being no further business the meeting was adjourned at 9:15 p.m.

Submitted,

  
Jean R. Weisman  
Project Manager



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# Town of St. Michaels

May 20, 2004

## Meeting of St. Michaels Utilities Commission

Presented by  
H. Michael Hickson

Banks, Nason & Hickson, P.A.

Attorneys At Law  
Salisbury, Maryland





DEPARTMENT OF DEFENSE

OFFICE OF THE SECRETARY

MEMORANDUM FOR THE SECRETARY

DATE: 10/10/68

FROM: [illegible]

SUBJECT: [illegible]

10/10/68



# Municipal Electric Utility

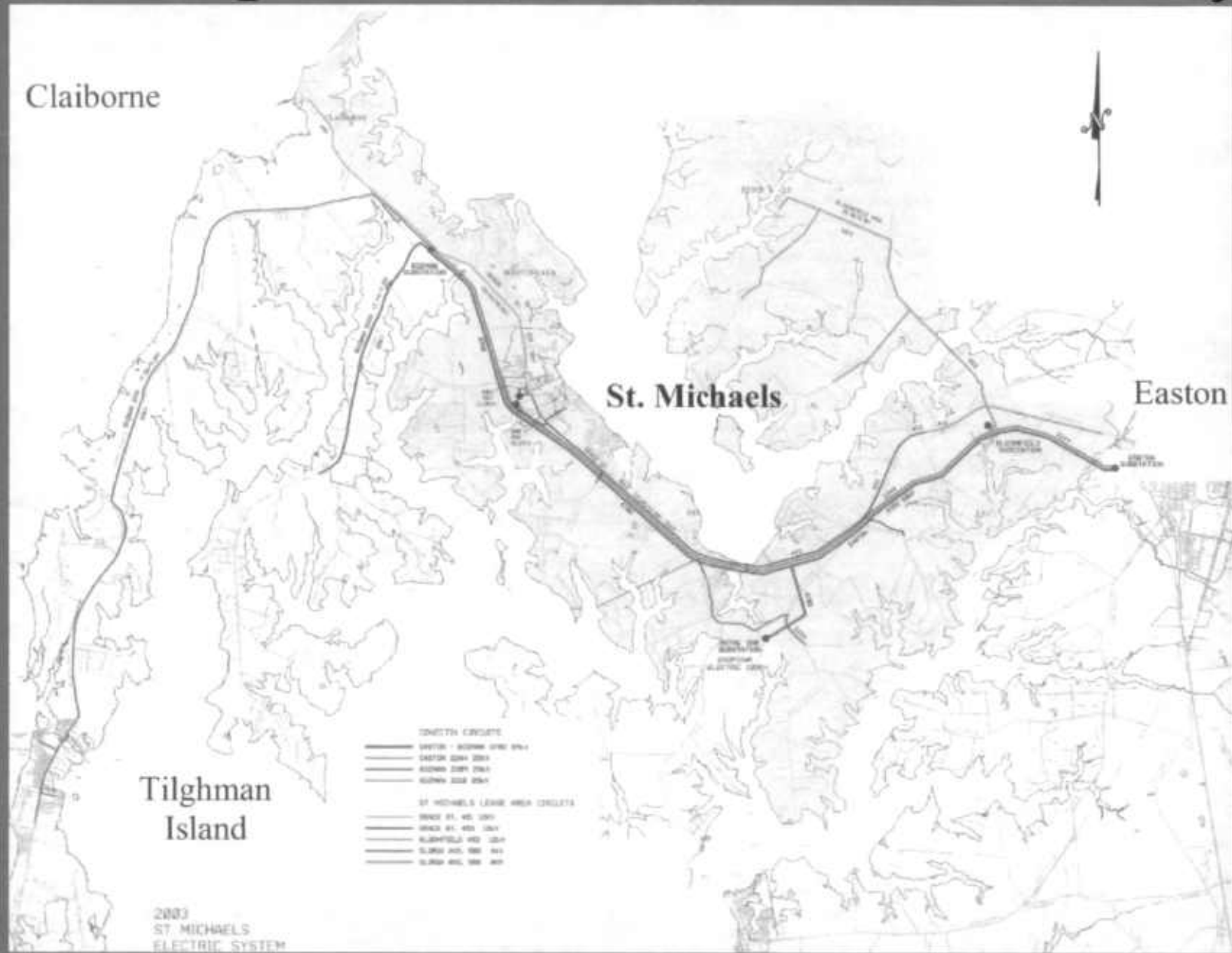
- Electric Distribution System
- Modern & In Good Condition
- Serves Approximately 3,900 Customers
- Designated Exclusive Service Franchise Territory
- System Leased to Conectiv in 1981







# Municipal Service Franchise Territory









# History of Electric Utility

- 1916      Utilities Commission Authorized
- 1927 – 49      System Expanded (per mapped area)
- 1954      Town Stopped Generating Electricity
- 1964      P.S.C. Confirmed Town's Service Territory
- 1981      Lease of System to Conectiv



1951-1952

1953-1954

1955-1956

1957-1958

1959-1960

1961-1962

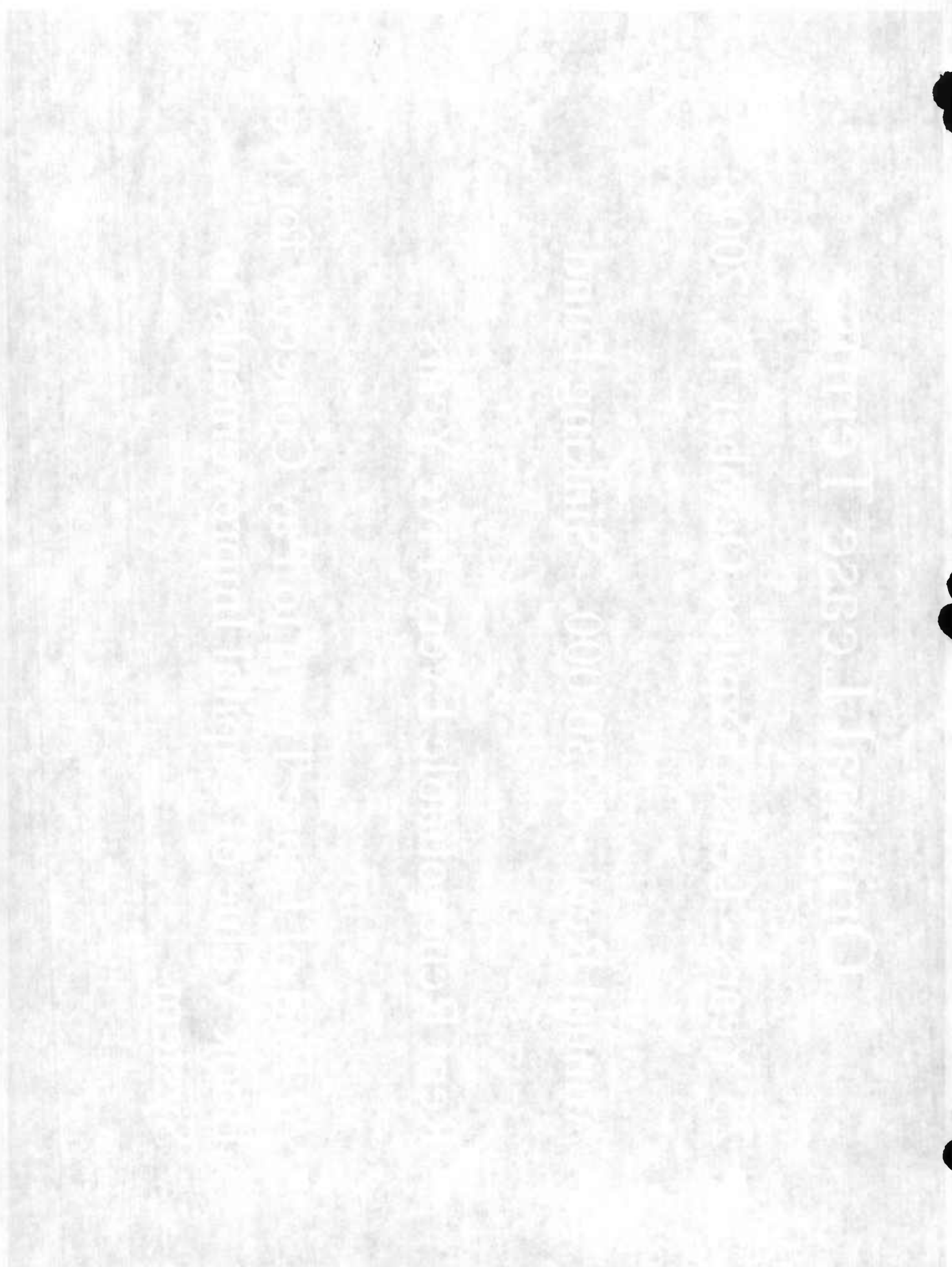
1963-1964



# Original Lease Terms

- 25 Years - Lease Expires October 15, 2006
- Annual Rent - \$230,000 – Sinking Fund
- Rent Renegotiable Every Five Years
- At End of Lease Town to Pay Conectiv for Net Book Value of Capital Improvements to System







# History of Lease Since 1981

- 1986 Rent Negotiation
- 1991 Rent Negotiation
- 1995 \$5.7 Sinking Fund (matures at end of Lease)
- 1995 Concern – Ability to Retain System
- 1998 Renegotiation of Lease



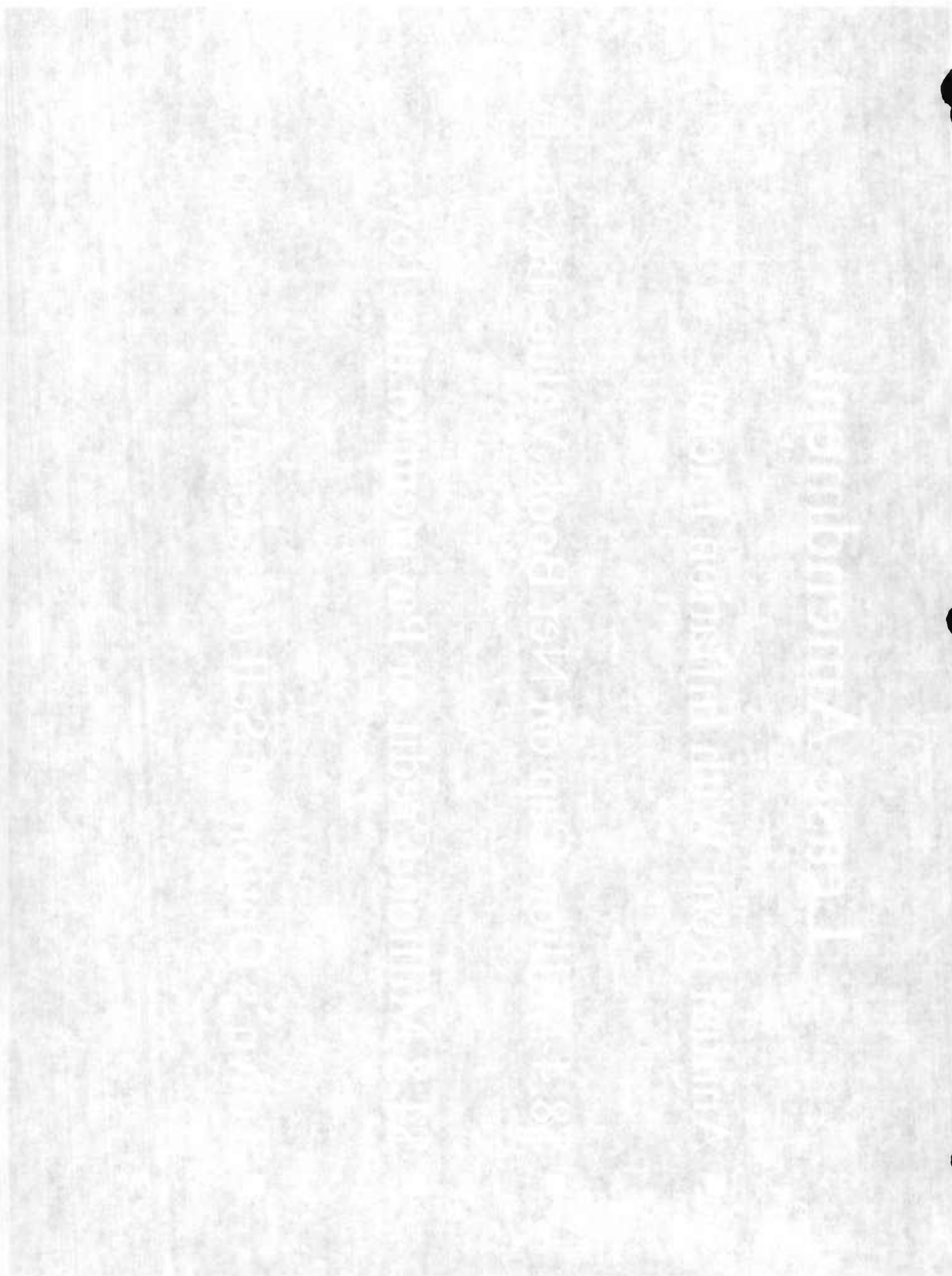




# Lease Amendment

- Annual Rent With Inflation Factor
- \$8.4 Million Cap on Net Book Value (Buy-Back)
- \$4.8 Million Credit or Payment to the Town
- Town's Option to Sell (If exercised by June 1, 2004)







# Whether to Exercise the Option to Sell

(Expires After June 1, 2004)

## If Option to Sell is Exercised:

- Assets transferred to Conectiv
- Extinguish Municipal Exemption
- Use of \$10.5 Million \*

- \* Subject to State-mandated Town investment policy.
- State Government Investment Pool is currently yielding 1.04%.

## Potential if System is Retained:

- Sell the System
- Lease the System
- Operate the System:
  - Contracted Operation
  - Self-Operation
  - Combination



# Effect of Exercise on the Oxygen to CO<sub>2</sub>

Ratio in the Human Lung

by J. H. HARRIS, JR., and J. H. HARRIS

Department of Physiology, University of California, San Diego, La Jolla, California

Received for publication, September 15, 1964; accepted for publication, November 10, 1964.

Reprint requests: Dr. J. H. Harris, Jr., Department of Physiology, University of California, San Diego, La Jolla, California 92037.

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# Town of St. Michaels

May 20, 2004

## Meeting of St. Michaels Utilities Commission

Presented by  
David V. Downes, P.E.

**Downes Associates, Inc.**  
Engineering Consultants  
Salisbury, Maryland







# Deregulation Background

## ■ National

- Wholesale deregulation of Transmission and Energy Markets
- Retail deregulation legislation in approximately twenty-seven (27) States
- 2,000 municipally owned electric utilities nationwide
- Municipal Exemption included in State deregulation legislation
- Currently, all municipals have retained their exemption rights

## ■ State

- Maryland retail deregulation legislation enacted 2000
- Maryland legislation included a Municipal Exemption
- Maryland's six (6) municipal electric utilities are regulated by Maryland Public Service Commission (MPSC)

## ■ Local

- Self-regulated with local decision making
- Local response to consumer/owner
- Tax-exempt, Not-For-Profit, Consumer-owned electric utility







# Conectiv Rate Increase Begins June 1, 2004<sup>1</sup>

- 3,240 Residential Customers
  - Approximately 19% increase in supply costs
  - Approximately 12 % increase in total electric bill
- 660 Commercial Customers
  - Cost change varies based on size of customer
    - Range is from a decrease of 3% to 5% to an increase of 12% to 20%

Note:

<sup>1</sup> Cost increase estimates based on Maryland Public Service Commission Staff Report



С. 100-101

С. 102-103

С. 104-105

С. 106-107

С. 108-109

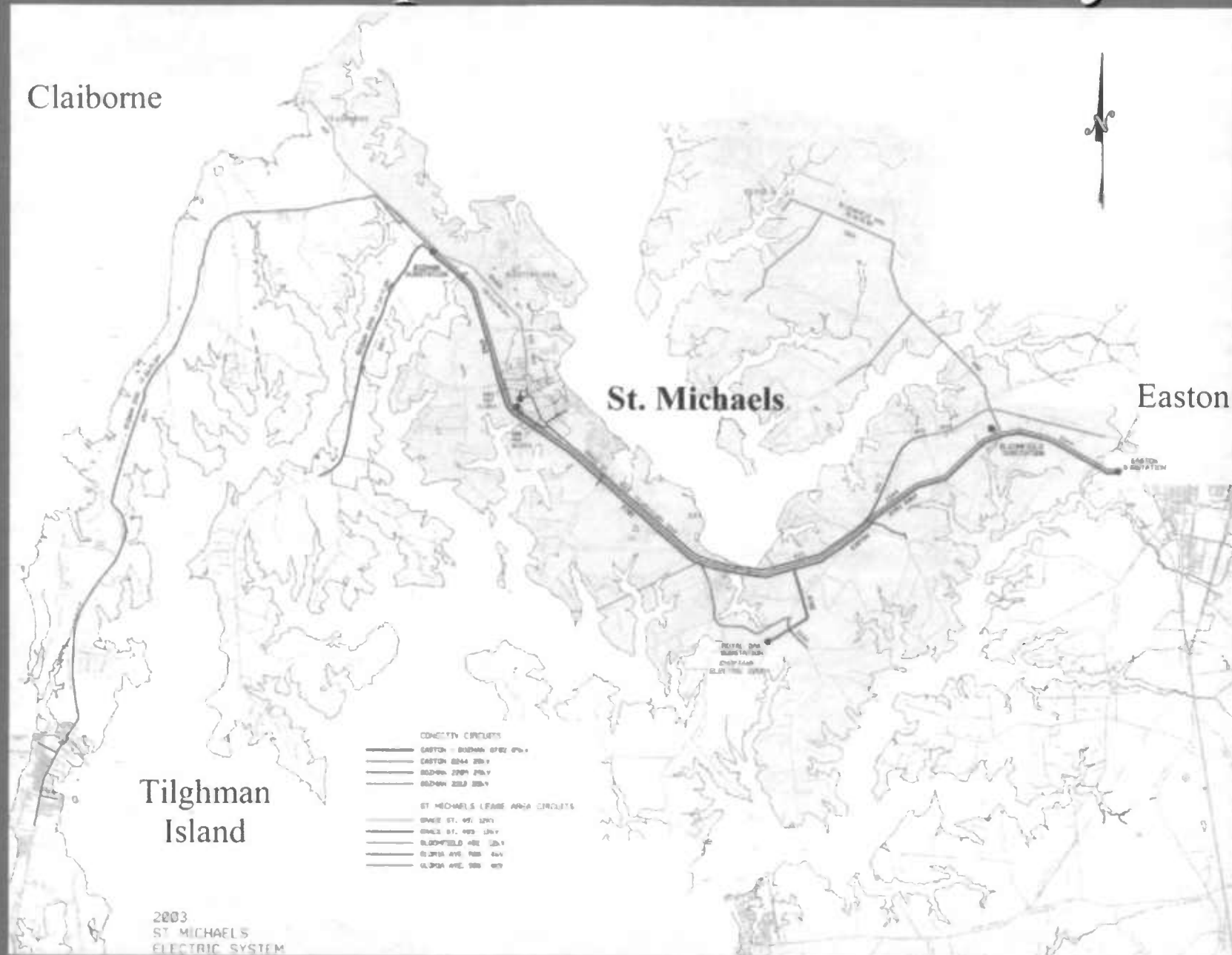
С. 110-111

С. 112-113

С. 114-115



# Municipal Service Territory





Учреждение культуры и искусства

Музыка



# Existing Distribution System

- Bloomfield Substation
- Gloria Avenue Substation
- 6 distribution circuits
- Approximately 3,440 poles
  - St. Michaels Electric poles-2,700
  - TelCo-650
  - Private-90
- Other assets-Transformers, Meters, Conductors, Rights-of-way, etc.
- Serving approximately 3,900 customers



# Ποιητική Διγγραφή

Εκδόσεις

Ποιητική Διγγραφή

Ποιητική Διγγραφή

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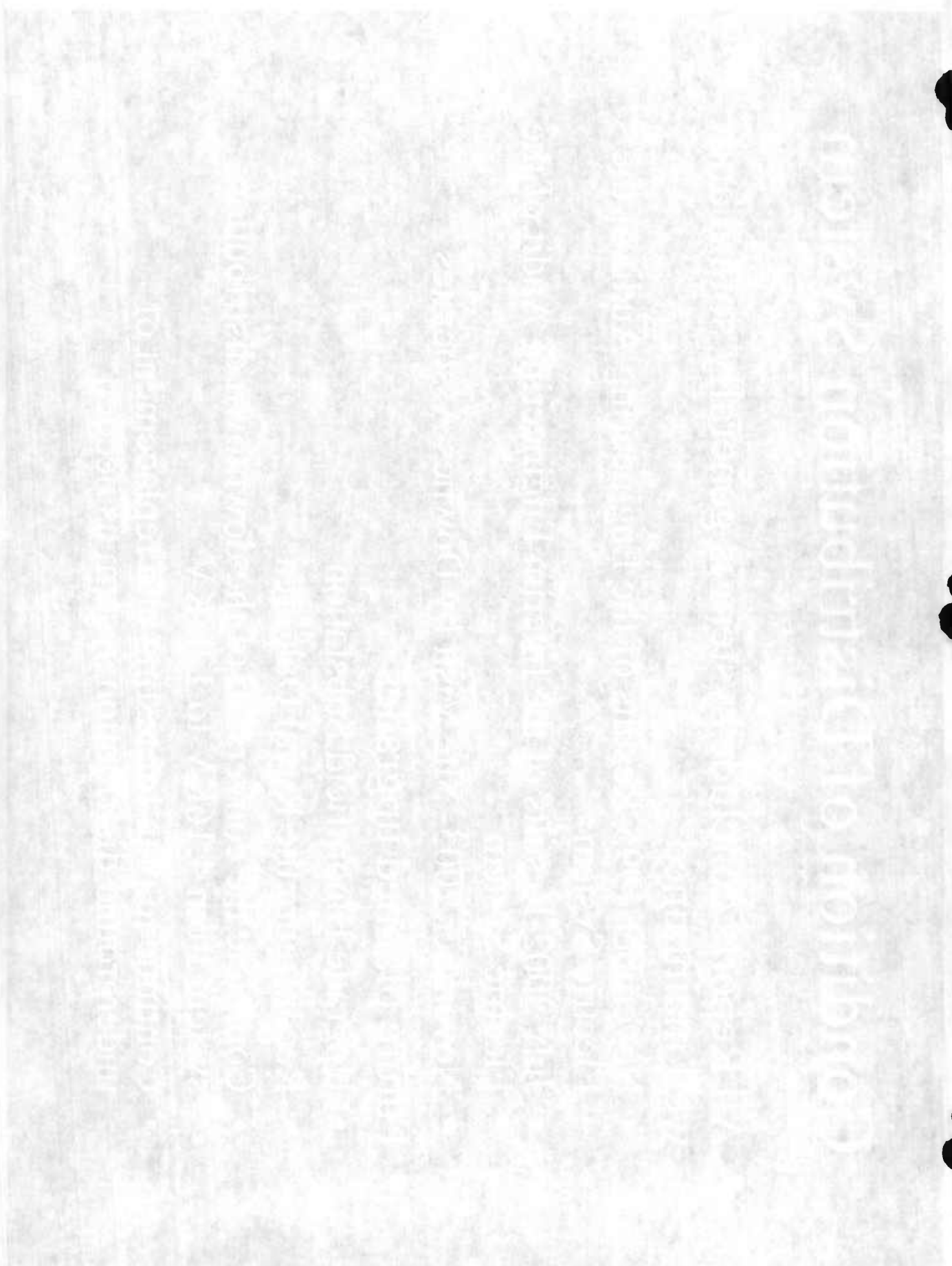
Ποιητική Διγγραφή



# Condition of Distribution System

- All Reports conclude system is generally sound and well maintained
  - November 1995-Results of the Engineering Audit of the Electric System
  - July 2002-Results of the Interim Engineering Audit of the Electric System
  - November 2003- Site Visit by Downes Associates
- Future planned upgrades
  - Upgrade Bloomfield Substation
  - Reconfigure the Royal Oak area
  - Complete the conversion of the downtown distribution system from 4.16KV to 12.5KV
  - Continue to plan for testing and replacement of underground distribution system as needed







# Summary of Assets

- Distribution infrastructure
- Lease agreement
- Exclusive franchise service territory
- Municipal Exemption
- Ongoing business concern
- Existing \$5.7 million sinking fund



# THE HISTORY OF THE

REPUBLIC OF THE UNITED STATES OF AMERICA

FROM 1776 TO 1876

BY JAMES M. SMITH

NEW YORK: 1876

THE HISTORY OF THE

REPUBLIC OF THE UNITED STATES OF AMERICA

FROM 1776 TO 1876

BY JAMES M. SMITH

1876



# Sell System Option

(Exercise June 1, 2004 Option)

- All assets would transfer to Conectiv
- Town would receive \$4.8 million
- Extinguish Municipal Exemption

\$4.8 million from Conectiv

\$5.7 million from sinking fund

\$10.5 million total\*

\* Subject to State mandated Town investment policy.

State Government Investment Pool is currently yielding 1.04%







# Retain System Option

(Do Not Exercise June 1, 2004 Option)

- All assets described would be retained by the Town
- Town would receive \$4.8 million credit
- Municipal Exemption would be retained

\$4.8 million credit from Conectiv

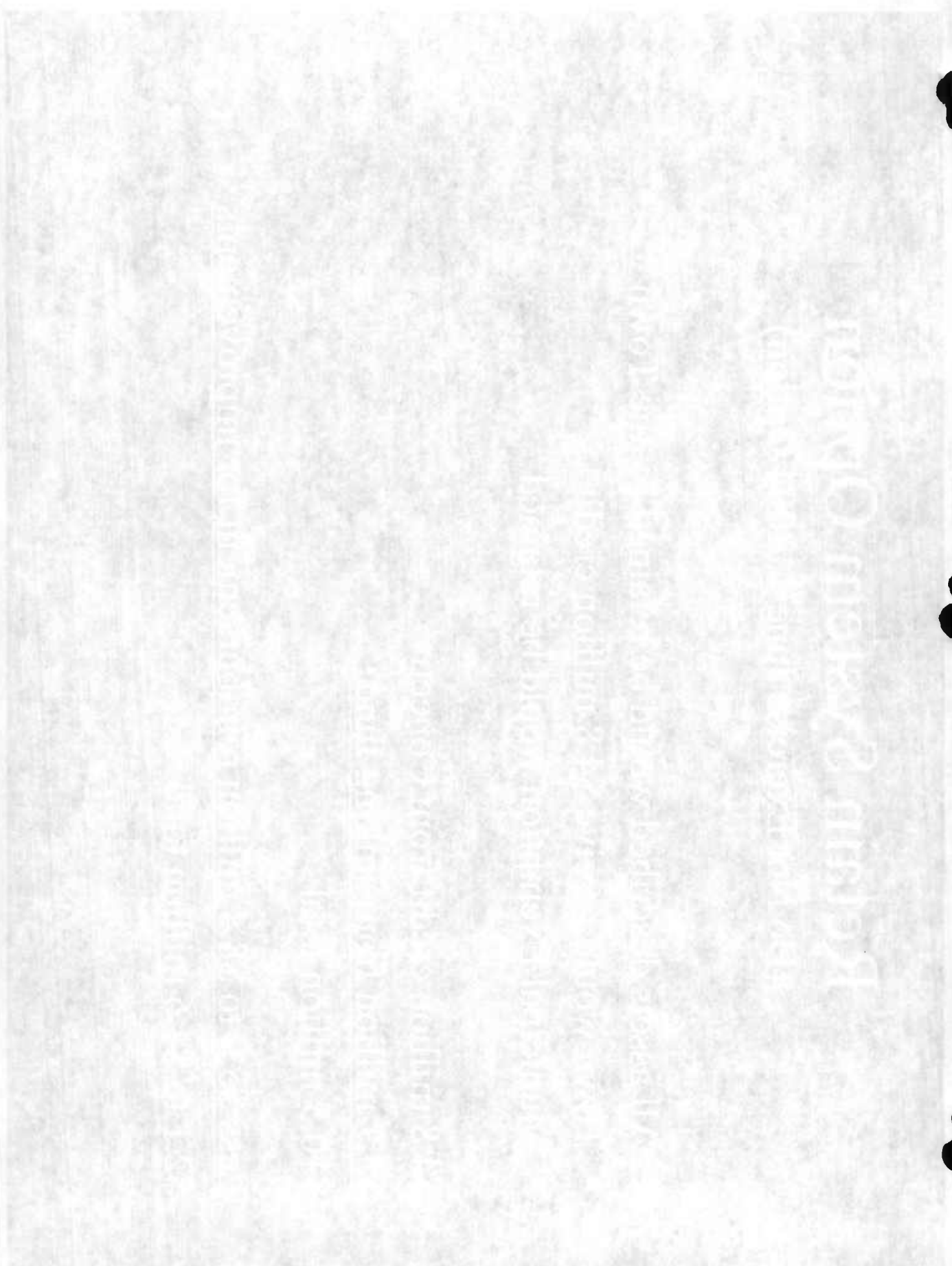
\$5.7 million from sinking fund

\$10.5 million total

Less \$5.9 to \$8.4 million reimbursement for improvements

\$2.1 to \$4.6 million total







# Sell/Retain Options

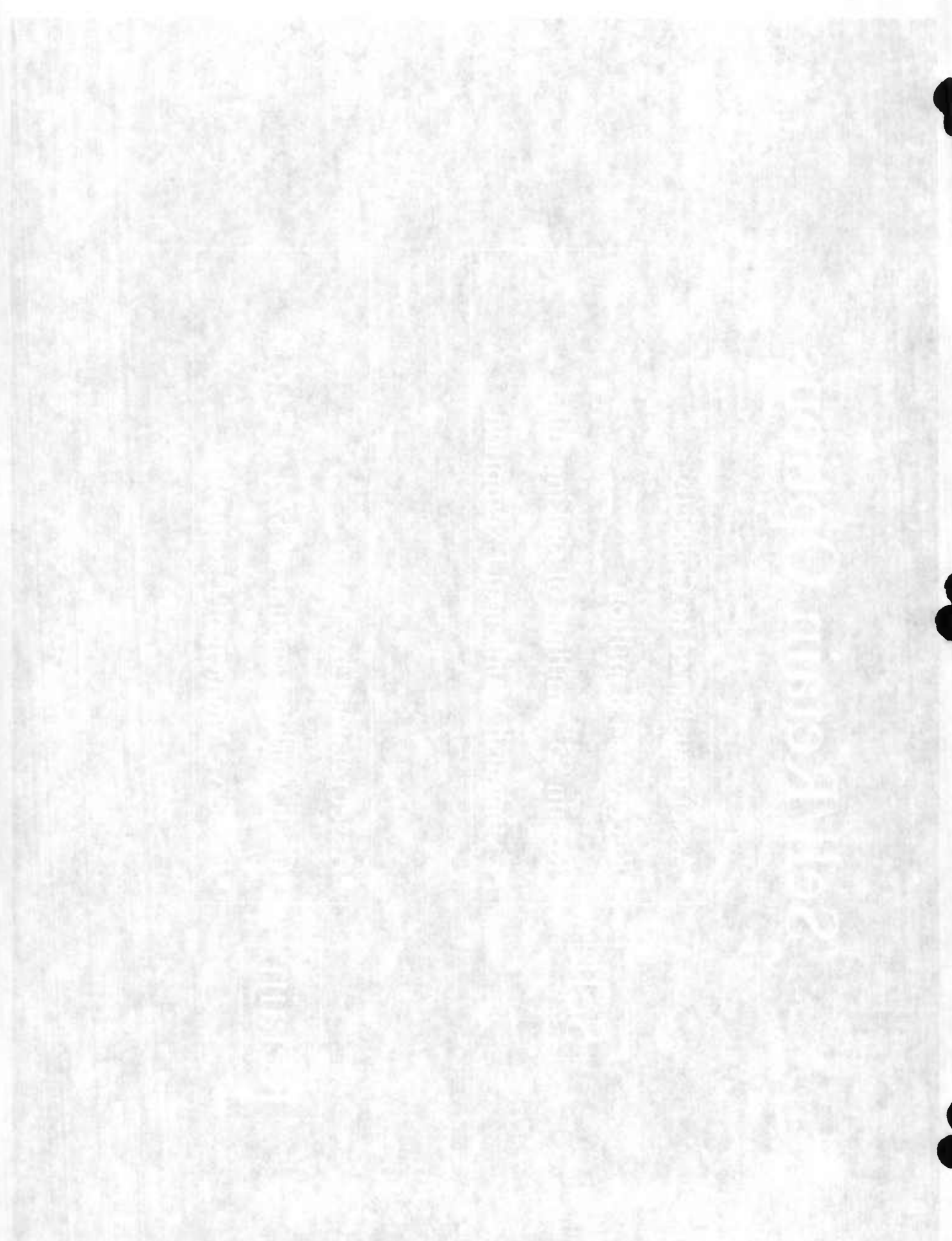
Sell

- Asset transferred to Conectiv
- Receive \$4.8 million
- Retain \$5.7 million of sinking fund
- Extinguish Municipal Exemption

Retain

- Asset retained by Town
- Cash working capital of \$2.1 to \$4.6 M
- Preserve Municipal Exemption







# Options if System Retained



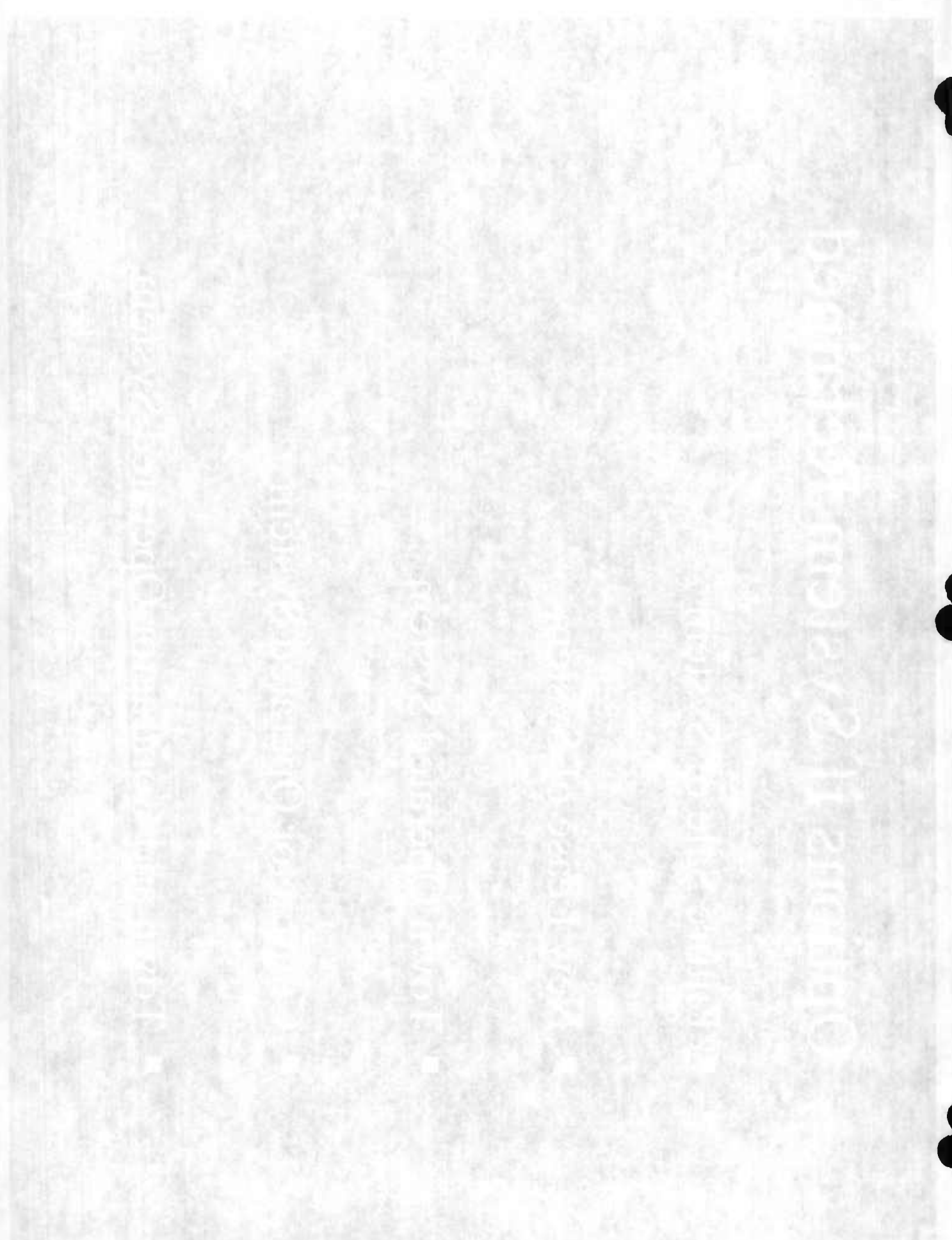
Общественная организация «Ассоциация юристов России»



# Options if System Retained

- Future Sale of System
- New Lease of System
- Town Operated System
- Contractor Operated System
- Town and Contractor Operated System







# Benefits of Retaining System

- Future sale option (distribution system only)
- Future sale price to be negotiated
- Asset appreciation
- Operating Margin value for Town and Customer estimated at \$1.0 to \$1.5 million per year
- Local decision making and local accountability
- Local jobs, spending, and economic impact
- Local Customer service and outage response
- Town benefits from new resources and talent
- Town benefits from economies of scale



# Preparation of a...

(The following is a summary of the information provided in the document.)

The first section of the document discusses the importance of maintaining accurate records of all transactions. It emphasizes that this is essential for the proper management of the organization's finances and for ensuring compliance with relevant regulations.

The second section outlines the specific steps involved in the preparation of the financial statements. This includes the collection of all necessary data, the verification of its accuracy, and the subsequent calculation of the various components of the statements.

The third section provides a detailed explanation of the different types of financial statements that are required. It covers the balance sheet, the income statement, and the cash flow statement, among others, and describes how they are prepared and presented.



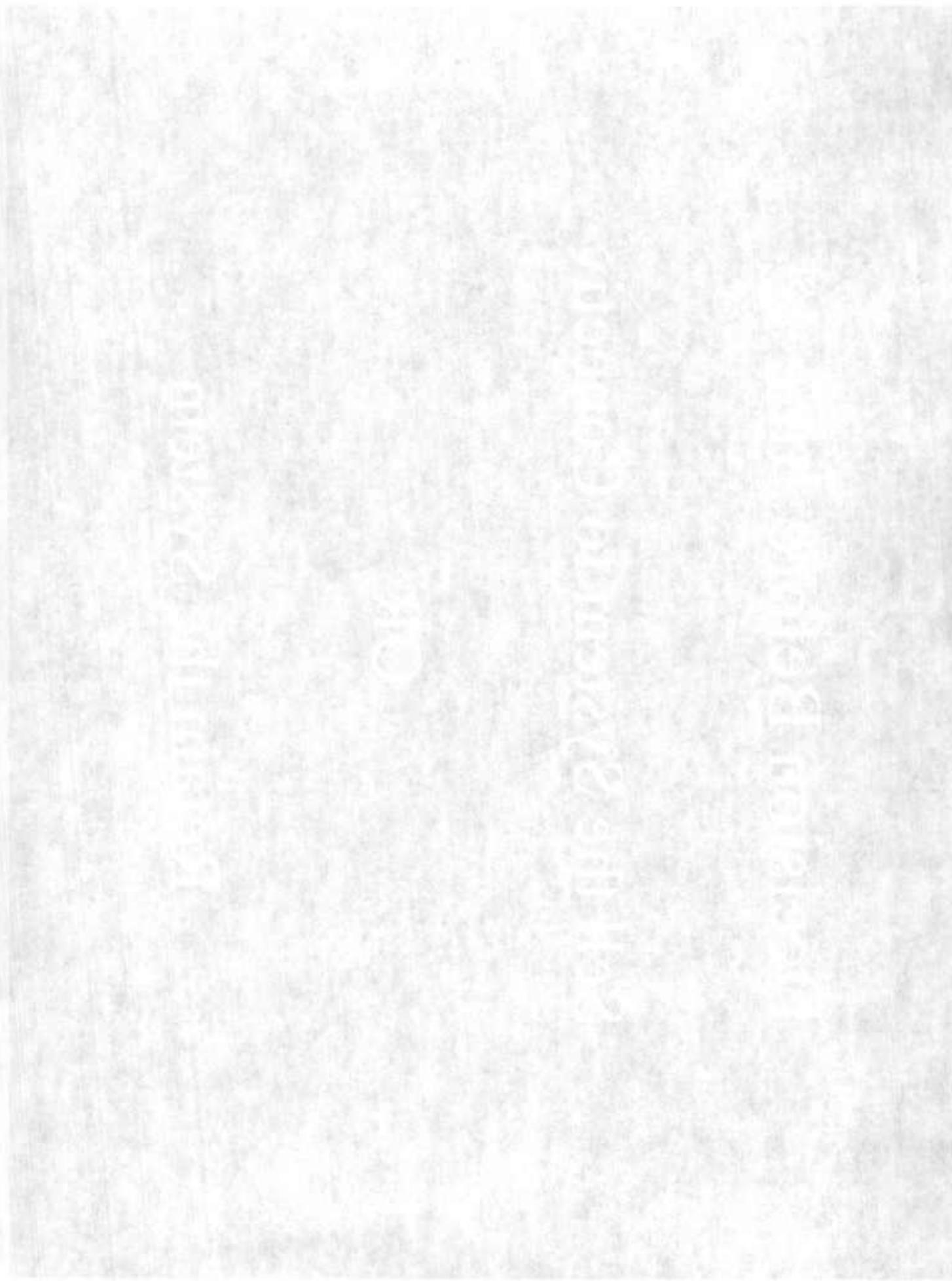
Decision Before June 1<sup>st</sup>

Sell the System to Conectiv

OR

Retain the System















ST. MICHAELS UTILITIES COMMISSION  
MINUTES OF COMMISSION MEETING  
APRIL 5, 2007

A meeting of the St. Michaels Utilities Commission (the "Commission") was called to order at 9:18 a.m. in the Edgar M. Bosley, Jr. Municipal Building, 300 Mill Street, St. Michaels, Md, by President James Knepper after due public notice thereof was given. Utilities Commission members Howard Eckel and Victor MacSorley were also present. Also in attendance was Town Attorney H. Michael Hickson, OberlKaler Attorney Meredith O'Connor, President of the Town Commissioners Edward Doyle, Town Manager Cheril Thomas, and Project Manager Jean Weisman.

The first order of business was an election of officers, this being the first meeting of the Utilities Commission for the calendar year 2007 and Mr. MacSorley having been re-appointed as of January 1, 2007. Mr. Eckel made a motion to elect Mr. Knepper as President, the motion was seconded by Mr. MacSorley and passed with a vote of 2-0, Mr. Knepper abstained. Mr. Eckel then made a motion to elect Mr. MacSorley as Vice President, the motion was seconded by Mr. Knepper and passed unanimously. Mr. MacSorley then made a motion to elect Mr. Eckel Secretary, the Motion was seconded by Mr. Knepper and passed unanimously.

The next agenda item was the review and consideration of the agreement and settlement documents relating to the sale of the St. Michaels Electric Utility, including its service territory, franchises and all other related assets, by the Commissioners of St. Michaels and by the St. Michaels Utilities Commission to Choptank Electric Cooperative, Inc. Mr. Hickson submitted a document titled "Index to Documents," "System Purchase Agreement, Amended Signature Pages OberlKaler, dated March 23, 2007", this document was labeled Exhibit 1, and made a part of these minutes. Mr. Hickson and Ms. O'Connor explained the documents contained in Exhibit 1. Mr. Hickson noted that all of the Utilities Commission members had received the documents listed in Exhibit 1 prior to the meeting. Mr. Hickson further noted that the St. Michaels Utilities Commission reviewed the sale agreements prior to their execution. Ms. O'Connor stated that to the best of her knowledge none of the documents listed on Exhibit 1 and present at this meeting to be signed were in conflict with the system purchase agreement between the Town and Utilities Commission, as Sellers, and Choptank Electric Cooperative, Inc., as Purchaser, previously reviewed, recommended to the Town Commissioners and approved by St. Michaels Utilities Commission and as previously approved by the Town Commissioners (hereafter the "System Purchase Agreement"). Mr. Hickson then contacted Mr. Abel (attorney at OberlKaler) by phone and Mr. Abel confirmed that none of the documents present at this meeting to be signed were inconsistent with the System Purchase Agreement. Following brief discussion, Mr. MacSorley made a motion that the St. Michaels Utilities Commission recommend to the Town Commissioners that the Town Commissioners approve, adopt and execute all of the documents listed in Exhibit 1, except the documents designated on Exhibit 1 as items Q, R, S, T and X. The motion was seconded by Mr. Eckel and passed unanimously. Mr. MacSorley then made a motion that the St. Michaels Utilities Commission approve all of



those documents, and authorize the Utilities Commission officers to sign all of those documents, listed in Exhibit 1, except those documents designated on Exhibit 1 as items Q, R, S, T and X. The motion was seconded by Mr. Eckel and passed unanimously.

At 10:10 a.m., Mr. Eckel then made a motion to go into executive session to discuss a matter involving possible litigation regarding a disagreement between the Town and Delmarva Power regarding funds due, and opinion of counsel letters written, but not yet sent, to Choptank Electric Cooperative, Inc. by Mr. Hickson and by OberlKaler regarding the sale. The motion was seconded by Mr. MacSorley and passed unanimously. Following discussion between the Utilities Commission members and counsel the executive session was closed and the public meeting re-opened after a motion by Mr. MacSorley, that was seconded by Mr. Eckel and passed unanimously.

The next item on the agenda was the review and consideration of the Memorandum of Understanding between the Commissioners of St. Michaels and the St. Michaels Utilities Commission with Delmarva Power and Light Company, and related documents. Following brief discussion, Mr. Eckel made a motion that the St. Michaels Utilities Commission recommend to the Town Commissioners that the Town Commissioners approve, adopt and execute those documents listed in Exhibit 1 designated as items Q, R, S, T, and X. The motion was seconded by Mr. MacSorley and passed unanimously. Mr. Eckel then made a motion that the St. Michaels Utilities Commission approve all of those documents, and authorize the Utilities Commission Officers to sign all of those documents, listed in Exhibit 1 designated as items Q, R, S, T and X. The motion was seconded by Mr. MacSorley and passed unanimously.

Mr. Hickson explained that most of the settlement documents relating to the transactions contemplated by the System Purchase Agreement are in final form and that agenda item #6, allows for minor changes to the settlement documents without having to reconvene the St. Michaels Utilities Commission. Mr. Eckel then made a motion that the St. Michaels Utilities Commission recommend to the Town Commissioners, and that the St. Michaels Utilities Commission approve and authorize the St. Michaels Utilities Commission officers to sign, the documents described in the previously mentioned Exhibit 1 to this meeting, as those documents may be amended, and such additional documents, that are: (1) substantially consistent with the intent of the System Purchase Agreement and as the Town Commissioners and their legal counsel deem reasonable and necessary to accomplish the transactions contemplated by that System Purchase Agreement; and (2) substantially consistent with the intent of the Memorandum of Understanding between the Commissioners of St. Michaels, the St. Michaels Utilities Commission, and Delmarva Power & Light Co. The motion was seconded by Mr. MacSorley and passed unanimously.

Following brief discussion Mr. MacSorley then made a motion that the St. Michaels Utilities Commission recommend to the Town Commissioners, and that the St.



smuc  
4/5/07 minutes  
Exhibit 1

INDEX TO DOCUMENTS







System Purchase Agreement  
Amended Signature Pages

Ober/Kaler  
March 23, 2007

*Choptank  
Purchase Agreement*

		Doc Ref #	Notes
A	the Purchase Agreement;	1890040	
B	Addendum to the Purchase Agreement dated August 23, 2006	1890056	
C	the Bill of Sale and Instrument of Assignment by and between Choptank Electric Cooperative, Inc., The Commissioners of St. Michaels and the St. Michaels Utilities Commission dated and effective of October 16, 2006;	1890051	
D	the Special Warranty Deed to Gloria Avenue Substation Fee Property by The Commissioners of St. Michaels and the St. Michaels Utilities Commission and Choptank Electric Cooperative, Inc. dated as of October 13, 2006;	1890043	
E	the Special Warranty Deed to Bloomfield Substation Fee Property by The Commissioners of St. Michaels and the St. Michaels Utilities Commission and Choptank Electric Cooperative, Inc. dated as of October 13, 2006;	1890045	
F	the FIRPTA Affidavit for Gloria Avenue Substation Fee Property dated as of October 13, 2006;	1890046	
G	the FIRPTA Affidavit for Bloomfield Avenue Substation Fee Property dated as of October 13, 2006;	1890047	
H	the Substitution Form 1099S Proceeds from Real Estate for Gloria Avenue Substation Fee Property dated as of October 13, 2006;	1890059	
I	the Substitution Form 1099S Proceeds from Real Estate for Bloomfield Avenue Substation Fee Property dated as of October 13, 2006;	1890061	
J	the Owner Affidavit for Gloria Avenue Substation Fee Property dated as of October 13, 2006;	1849358	
K	the Owner Affidavit for Bloomfield Avenue Substation Fee Property dated as of October 13, 2006;	1890064	
L	the Affidavit for Consideration for Gloria Avenue Substation Fee Property dated as of October 13, 2006;	1890049 & 1890445	need DYKEMA AFFIDAVIT (have the GAP INDEMNITY document, which is the attachment)
M	the Affidavit for Consideration for Bloomfield Avenue Substation Fee Property dated as of October 13, 2006;	1890050 & 1890457	need DYKEMA AFFIDAVIT (have the GAP INDEMNITY document, which is the attachment)
N	the Assignment and Assumption Agreement dated as of October 16, 2006 by and between The Commissioners of St. Michaels and the St. Michaels Utilities Commission and Choptank Electric Cooperative, Inc. relating to Lease Agreement by and between Archibald Gartrell, Jr. and Marilyn Gartrell as lessor and Delmarva Power and Light Company as lessee made on August 29, 2002;	1850322	In adding the SMU signature line, I also had to add a third notary block and changed the notary block from 2006 to 2007. Therefore, the page number for the exhibit moved from page 4 to 5. Made minor changes to confirm attached electronic document to what is currently being held with the escrow agent (final version)
O	the Assignment Agreement by and between The Commissioners of St. Michaels and the St. Michaels Utilities Commission and Choptank Electric Cooperative, Inc. relating to Delmarva Lease dated as of October 16, 2006;	1850129	Made minor changes to confirm attached electronic document to what is currently being held with the escrow agent (final version)







# System Purchase Agreement

## Amended Signature Pages

Ober/Kaler

March 23, 2007

		Doc Ref #	Notes
CSC	P	1850350	In adding the SMU signature line, I also had to add a third notary block and changed the notary block from 2006 to 2007. Made minor changes to confirm attached electronic document to what is currently being held with the escrow agent (final version)
#5 on agent's DP+L	Q	1840934	
DP+L	R	1849710	Made changes to signature page, added a notary and changed the notary block from 2006 to 2007. Did not have a Dykema footer.
DP+L	S	1849660	
DP+L	T	1849663	
	U	1850445	
	V	1849417	
	W	1850262	When I added the SMU signature line, I noticed that there should be a "The" before Commissioners of St. Michaels (their official name is "The Commissioners of St. Michaels").
DP+L	X	1851682	When I added the SMU signature line, I noticed that there should be a "The" before Commissioners of St. Michaels (their official name is "The Commissioners of St. Michaels").
	Y	1890042	








St. Michaels Utilities Commission  
Minutes Of Commission Meeting  
Public Session  
April 5, 2007  
Page 3

Michaels Utilities Commission approve and authorize the St. Michaels Utilities Commission officers to sign, such document or documents as the Town Commissioners and their legal counsel deem reasonable and necessary to satisfy or indemnify Choptank Electric Cooperative, Inc. relating to outstanding issues that Choptank may use to refuse to go to settlement, as discussed in Executive Session held during this meeting. The motion was seconded by Howard Eckel and passed unanimously.

There being no further business, Mr. Eckel made a motion to adjourn the meeting. The motion was seconded by Mr. MacSorley and passed unanimously.

Submitted,

  
Jean R. Weisman  
Project Manager







ST. MICHAELS UTILITIES COMMISSION  
MINUTES OF COMMISSION MEETING  
JUNE 12, 2007

A meeting of the St. Michaels Utilities Commission was called to order at 10:25 a.m. in the Edgar M. Bosley Municipal Building, 300 Mill Street, St. Michaels, Md, by President James Knepper after due public notice thereof was given. Utilities Commission members Howard Eckel and Victor MacSorley were also present. Also in attendance was Jean Weisman.

The first order of business was approval of the minutes from April 5, 2007. Mr. MacSorley made a motion to approve the minutes of April 5, 2007. The motion was seconded by Mr. Eckel and passed unanimously.

The next order of business was review and consideration of a motion concerning the sale of the electric distribution system to Choptank Electric. After brief discussion, Mr. Eckel made a motion to accept the motion entitled "Motion to Ratify And Confirm All Actions Taken By Officers of SMU Relating To The Sale Of The St. Michaels Electric Distribution System To Choptank Electric Cooperative, Inc." A copy of the entire motion was labeled Exhibit "A" and is attached and made a part of these minutes. The motion was seconded by Mr. MacSorley and passed unanimously.

There being no further business, Mr. MacSorley made a motion to adjourn the meeting at 10:30 a.m.

Submitted,

  
Jean Weisman  
Project Manager







Motion To Ratify And Confirm All Actions Taken By Officers of  
SMU Relating To The Sale Of The St. Michaels Electric  
Distribution System To Choptank Electric Cooperative, Inc.

The St. Michaels Utilities Commission (the "Utilities Commission") has voted to recommend to the Commissioners of St. Michaels (the "Town Commissioners") that the St. Michaels electric distribution system, and all related assets, (collectively the "System"), including all franchises to operate the System in the St. Michaels electric service territory (the "Territory"), be sold, conveyed and transferred to Choptank Electric Cooperative, Inc. (hereafter "Choptank"); and

The Town Commissioners have voted to sell, transfer and convey the System, including the Territory, to Choptank; and

The Utilities Commission was a party to the sale, transfer and conveyance of the System and the Territory to Choptank, and therefore the officers of the Utilities Commission were required to take actions and execute documents for the Utilities Commission to accomplish the sale, transfer and conveyance of the System and the Territory to Choptank; and

In voting to sell, transfer and convey the System and the Territory to Choptank, Utilities Commission and the Town Commissioners each authorized their respective officers to take such actions as they deemed were necessary and reasonable to accomplish the sale, transfer and conveyance of the System and the Territory to Choptank; and

The sale, transfer and conveyance of the System and the Territory to Choptank has been completed, and after the fact each member of the Utilities Commission has reviewed all actions taken and all documents executed by the officers of the Utilities Commission relating to the sale, transfer and conveyance of the System and the Territory to Choptank.

NOW, THEREFORE, it is hereby moved that the Utilities Commission hereby ratify and confirm all actions taken and all documents executed by the officers of the Utilities Commission relating to the sale, transfer and conveyance of the System and the Territory to Choptank.







## **Main Identity**

---

**From:** <Jknepper1@aol.com>  
**To:** <weismanj@verizon.net>  
**Sent:** Friday, June 15, 2007 8:59 AM  
**Subject:** Re: SMU minutes 6-12-07

Jean, They look great to me. Thanks Jim K

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See what's free at [AOL.com](http://AOL.com).

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No virus found in this incoming message.

Checked by AVG Free Edition.

Version: 7.5.472 / Virus Database: 269.9.0/852 - Release Date: 6/17/2007 8:23 AM

6/18/2007



