UTILITY COMMITTEE

The Utility Committee Meeting was held on July 27, 2015 at 5:00 p.m. with Chairman Hutchison presiding. Members present were Mr. Cole, Mr. Neil, Mr. Blakeman, and Ms. Stewart. Members of Council present were Mr. Hosfelt (departed at 5:11 p.m.) and Mr. Slavin (departed at 5:10 p.m.). Mayor Christiansen was also present.

AGENDA ADDITIONS/DELETIONS

Mr. Blakeman moved for approval of the agenda, seconded by Mr. Neil and unanimously carried.

Contract Award - North American Energy Services (NAES) Amended and Restated Operating Agreement

Due to time constraints, this item was placed on the Council agenda for consideration during their meeting scheduled for later in the evening.

Mr. Scott Koenig, City Manager, informed members that the City's power supply attorney, Mr. Kirk Betts, Betts & Holt, LLP; Mr. Harry Maloney, Electric Director; and Mrs. Donna Mitchell, Controller/Treasurer, worked to negotiate an agreement with North American Energy Services (NAES) on behalf of the City of Dover to ensure that the City is getting the most out of the existing power plant with a third-party vendor operating it.

Members reviewed the Amended and Restated Operation and Maintenance Agreement dated July 1, 2015 between the City of Dover and North American Energy Services (NAES). Mr. Betts provided members with a revised Page B-1, Appendix B - Performance Adjustment Provisions ***(Attachment #1)***, explaining that the Environmental factor was previously omitted. He advised that this revision did not affect the weight of the other factors in the performance adjustment section. Mr. Betts stated that the section for environmental protection was a major issue for plant performance and this correction clarifies that NAES is penalized for each violation that occurs. He explained that, essentially, 25% of the 20% would be taken away each time there is a violation until four (4) violations occur, and they would be completely wiped out at 20%, which is about $100,000 on average over the five (5) year term of the contract.

Mr. Betts informed members that changes were occurring in the PJM environment and the entire energy market. He advised that PJM had changed the way power plants are treated for capacity purposes. Mr. Betts explained that, beginning in 2018/19, every plant will have to be a capacity performance resource, which means that each plant has to be available anytime a maximum emergency is declared. He reminded members that during the polar vortex there were several plants that were unable to dispatch when ordered, either because they had interruptible gas contracts and there was no gas available because of the temperatures, or they were unable to crank up the oil. Mr. Betts stated that, during this maximum emergency, PJM still had enough capacity but the margin was very narrow and, as a result, PJM went through a process, then went to the Federal Energy Regulatory Commission (FERC) with a recommendation that plants be called capacity performance resources and receive a premium. He explained that the premium is supposed to be a way to guarantee performance and would reimburse the entity for having both oil and natural gas back-up fuel or a firm contract, noting that it costs more to have a firm gas contract than an interruptible contract.

Mr. Betts advised that the premium is still unknown at this time but would be presented in the auction beginning on August 10, 2015, for the 2018/2019 market period. He stated that the expectation is that the price for capacity will be much higher than the current price, in order to ensure that plants will operate on maximum emergency days. Mr. Betts noted that the current market price for capacity is $118 per MW day and it is expected to increase to more than $180 per MW day, with some predictions indicating that it could be between $200 and $220 per MW day at this first auction.

Mr. Betts explained that the other side of the issue is that the penalties are outrageous if there is a failure of performance. He stated that the interim rules are still subject to rehearing at the FERC; however, since the penalties are significant, The Energy Authority (TEA) and the City of Dover have begun discussing whether the performance adjustments in the proposed NAES contract align with where the City currently is with PJM.

Referring to revised Page B-1, Appendix B - Performance Adjustment Provisions, Mr. Betts noted that under Commercial Unavailability and Capacity, if the plant does not perform, there is a reduction in NAES' compensation. He stated that Commercial Unavailability is 35% of more than $500,000, which is a significant reduction and more than what the City had in prior contracts; however, it would not come close to the penalties for failure to perform. Mr. Betts reminded members that while a primary objective of the proposed contract was to ensure that the plant performs, there is a mismatch between the value of the contract and the penalties and, as a result, staff had discussed the possibility of adjusting the weights for Commercial Unavailability and Capacity in the coming year. Mr. Betts advised that in terms of the capacity performance requirement, the City is okay for this year but there will be a transitional capacity performance requirement and then the full requirement will begin in 2018/2019.

Mr. Betts stated that staff recommended authorizing the City Manager to execute the Amended and Restated Operation and Maintenance Agreement dated July 1, 2015 between the City of Dover and North American Energy Services (NAES), as presented with the inclusion of revised Page B-1, Appendix B - Performance Adjustment Provisions.

Mr. Blakeman questioned if it would take six (6) months to terminate the agreement if there was a catastrophic failure, especially after 2017 when the City is down to one (1) generating unit. Responding, Mr. Betts stated that the six (6) month termination notification would still apply; however, he indicated that something could always be worked out. He expressed his hope that the City would not have a catastrophic failure that would wipe out Unit 3 and the VanSant plant. Mr. Betts noted that the expectation is, with the improvements that are being made at VanSant, that the City would continue to bid that unit in, and he would recommend a modification of the contract rather than a complete termination.

Mr. Blakeman noted that the City would be losing Units 1 and 2, which would drop the City below the installed capacity to cover the peak load. He asked if there were still requirements to have enough capacity to cover the load and what the impact would be if the City only had the VanSant plant. In response to Mr. Blakeman, Mr. Betts stated that there was still a requirement to have enough capacity to cover the load and explained that the purchase power agreement with Calpine Energy Services, L.P. for 40 MW would be considered by City Council during their meeting

scheduled for later in the evening. He explained that 40 MW would cover the loss of Units 1 and 2 as well as the additional increment the City needs. Mr. Betts informed members that the City would also go out in the periodic markets to pick up any other difference the City may have to cover.

Mr. Blakeman moved to recommend authorizing the City Manager to execute the Amended and Restated Operation and Maintenance Agreement dated July 1, 2015 between the City of Dover and North American Energy Services (NAES), as presented with the inclusion of revised Page B-1, Appendix B - Performance Adjustment Provisions, as recommended by staff. The motion was seconded by Mr. Cole and unanimously carried.

Mr. Blakeman moved for adjournment, seconded by Mr. Cole and unanimously carried.

Meeting adjourned at 5:14 p.m.

James L. Hutchison, Sr.
Chairman

JLH/TM/dd
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Attachments

Attachment #1 - *Revised Page B-1, Appendix B - Performance Adjustment Provisions, to the Amended and Restated Operation and Maintenance Agreement dated July 1, 2015 between the City of Dover and North American Energy Services (NAES)*

APPENDIX B - PERFORMANCE ADJUSTMENT PROVISIONS

City of Dover

Matrix for Calculating Section 7.7 Performance Adjustments

Factor	Weight	Measure	No Adjustment	Full Adjustment	Adjustment Methodology
Commercial Unavailability	35.00%	Commercial Unavailability (CU)	less than 2% of dispatched hours	10% of dispatched hours	CU Calculation: $CU=\{(FO_{U1}+E_{U1})*(17MW) + (FO_{U2}+E_{U2})*(17MW) + (FO_{U3}+E_{U3})*(102MW) + (FO_{U11}+E_{U11})*(39MW)\} / 8760 \text{ hours}*(175MW)$
Capacity	25.00%	Demonstrated PJM Dependable Capacity	All tests passed	No tests passed	The adjustment is weighted by size of the unit subject to the test.
Safety Performance	15.00%	Required Safety Training Complete Required NAES Housekeeping Inspections Required NAES Safety Observations	98% 98% 98%	90% 90% 90%	Equal weights
Environmental	20.00%	Number of Notice of Violations in budget year	0	4	
Communications	5.00%	Plant Manager meets with City Representative monthly and keeps Representative informed of CIP budget changes	Subjective	Subjective	Operator keeps Owner Rep informed monthly of plant issues Operator provides monthly updates in CIP budget changes
	100.00%				

Results that fall between No Adjustment and Full Adjustment will be calculated on a straight-line interpolation.
Available hours = total hours per year when units are available for dispatch, excluding scheduled and unscheduled outage hours.

ATTACHMENT #1
Utility Committee Meeting of 07/27/2015