UTILITY COMMITTEE

The Utility Committee Meeting was held on March 9, 2015 at 5:15 p.m. with Chairwoman Williams presiding. Members present were Mr. Perza, Mr. Slavin (arrived at 5:18 p.m.), and Mr. Blakeman. Mr. Snaman was absent. Councilman Hutchison was also present.

AGENDA ADDITIONS/DELETIONS

Mr. Blakeman moved for approval of the agenda, seconded by Mr. Perza and unanimously carried (Snaman absent).

Acceptance of Wastewater from the Proposed Winding Creek Development (Outside City of Dover Limits)

Members were advised that Winding Creek Delaware, LLC, is proposing to construct a new 208-unit residential community west of the City of Dover. Kent County prefers a central disposal methodology, as opposed to an on-site solution within the development. To meet the requests of the County, it is proposed to provide wastewater service through an on-site pump station that will send the effluent to the City of Dover wastewater system.

A technical feasibility study was conducted by Morris & Ritchie Associates, Inc. (Consulting Engineer) which evaluated the impacts of the projected sewage flow on the existing sanitary sewer system that is owned by the City of Dover and operated by the Department of Public Works. Staff reviewed the technical feasibility study and has required improvements to existing infrastructure to be made by the developer of the residential community. Said improvements will be the sole financial responsibility of the developer. All system improvements must be complete, operational and approved by the City prior to accepting wastewater flow from the community. Additionally, a legal agreement must be finalized between the City of Dover and Winding Creek Delaware, LLC with respect to service rates and impact fees.

Using current out-of-City rates and fees, staff indicated that the estimated fiscal impact for the 208-unit residential community would be, as follows:

Impact Fees:	$6,184.00 / E.D.U. ($2,100 COD Water, $1,900 COD Sewer, $2,080 KC Sewer, $104 COD Admin Fee) X 208 units = $1,286,272.00 (To be received over a 5-7 year period) - $853,632 to the City of Dover; balance to K.C.
Estimated Monthly Sewer Bill:	208 units X 7 Tgals/month = 1,456 Tgals X $7.82 / Tgals = $11,385.92 + $2.50 = $11,388.42
Estimated Monthly Expenses:	1,456 Tgals X ($2.34 + $1.50 + $2.45 / Tgals) = $9,158.24
Estimated Net Revenue:	$11,388.42 - $9,158.24 = $2,230.18 per month at full build-out

According to the Kent County Department of Public Works, the amount of wastewater produced by this development can be assimilated into the current allocations under the current Contract User Agreement with Kent County.

Staff recommended acceptance of wastewater from the proposed Winding Creek development and that City Council grant authorization to the City Manager to enter into an agreement with Winding Creek Delaware, LLC.

Mr. Scott Koenig, City Manager, advised members that the proposed 208-unit residential community would have a gravity collection system and a private pump station that would connect into the City's existing infrastructure on Chestnut Grove Road and tie-in to the City's pump stations. He stated that staff had discussed this proposal with the Kent County Department of Public Works, and it would allow the new system to tie-in to the City of Dover system, rather than extending Kent County disposal district number 1.

Mr. Koenig explained that this would be a single customer for the City, since the 208-units would flow into a pump station owned by Winding Creek Delaware, LLC, and operated by a legitimate third party provider. As houses are occupied, the community would pay City impact fees, as well as Kent County impact fees, because the wastewater would ultimately go to the County's wastewater treatment plant. The City would bill the entity that owns the pump station on a monthly basis at the out-of-city rate, as described in the estimated fiscal impact.

Mr. Koenig informed members that the City's estimated net revenue of $2,230.18 per month at full build-out was based on the City's cost of transmitting the wastewater less the City's cost to treat it at Kent County. He noted that the out-of-city rate was 150% of the in-city rate. Mr. Koenig stated that, from a financial perspective, this is an interesting proposal for the City since there would not be any out-of-pocket expenses for the City.

Mr. Perza stated that it appeared that this proposal would produce revenue for the City; however, he questioned whether there were any negative aspects that would put the City at risk. Responding, Mr. Koenig stated that the only risk was that the City would be billing an independent third party for the monthly wastewater charge. He explained that it was his understanding that it would be one (1) of the statewide companies that are running these types of systems and there is professional regulation that would govern this system. Additionally, if the system was not working correctly, the Department of Natural Resources and Environmental Control (DNREC) would become involved because there would be disposal problems if the entity did not pay the bill.

Mr. Perza questioned whether there would be any negative consequence to the existing infrastructure and if the entity was paying for the upgrades that will interconnect with the City. In response, Mr. Koenig stated that a technical feasability study was conducted, necessary upgrades for the City's infrastructure were identified, and the developer would take care of those upgrades.

Responding to Mr. Blakeman, Mr. Koenig stated that Winding Creek would own the infrastructure up to the point where they connect to the City's system, and there will be private infrastructure in some cases. He did not believe that any infrastructure would have to be dedicated.

In response to Mrs. Williams, Mr. Koenig stated that future repair, maintenance, and liability would be the responsibility of the third party entity.

Mrs. Williams inquired as to the track record of the third party entity. Responding, Mr. Koenig stated that he had not seen the contract; however, it was his understanding that it was a private company that is charged at the State level of running wastewater systems.

Mrs. Williams questioned whether members had to make a decision without knowledge regarding the third party entity. In response, Mr. Koenig explained that, if members had reservations about the third party entity, the Committee could recommend authorizing him to negotiate the agreement with the stipulation that the final agreement would be brought forward to Council for consideration.

Mr. Blakeman moved to recommend authorizing the City Manager to negotiate an agreement to accept wastewater from the Winding Creek Development, with the understanding that the final agreement would be presented to City Council for final approval. The motion was seconded by Mr. Slavin and unanimously carried.

Responding to Mrs. Williams, Mr. Koenig expressed staff's hope to complete the agreement within the next few months and that construction would potentially begin in FY 16. He explained that his estimate that the build-out would take 5-7 years to complete was based on 208-units.

In response to Mrs. Williams, Mr. Koenig reviewed a Google Earth map depicting the location of the proposed development, noting that it is easiest to get to the property via Route 8.

Proposal to Perform Review and Update of the Electric System Financial Model, Complete Cost of Service Analysis, and Develop Proposed Rate Adjustments

Members were advised that, in light of recent changes in the City's power supply requirements, staff recommended an update to the electric rate study and forecast by Burns & McDonnell, under the continuity of service provision of the purchasing policy. Changes in the City's power supply requirements are, as follows:

1. The changes in the load profile for NRG created revenue shortfalls in FY14. The cost of service rate was previously developed on a lower load and demand profile than they are using today.
2. The forecasted load is flat, therefore rates will need to be adjusted to pick up the fixed cost not being covered.
3. PJM has made recent changes to the capacity performance rules. (A presentation is planned for March 23 to review with the Utility Committee these changes)
4. PJM is now requiring more oil inventory due to last year's polar vortex.
5. The City's commercial rates are not competitive with other public power suppliers in the State and staff is requesting cost of service allocations be validated and updated.

Members were informed that the fee proposed by Burns & McDonnell was the same fee that was paid for the last full cost of service analysis in 2012.

Staff recommended acceptance of the Burns & McDonnell Group proposal.

Mr. Scott Koenig, City Manager, stated that power supply requirements have changed fairly dramatically at times, and reminded members that there was a very large transfer last year from $8M to $10M in the Electric Fund. He stated that, with all that was happening in the electric industry, staff was very concerned that the City's load forecast was relatively flat with escalating baseline costs. Mr. Koenig stated that there are proposed changes to the City's load profile; however, he anticipated that the load would remain flat or even decline over time because people are creating significant efficiencies in their electric use through upgrades to their facilities.

Mr. Koenig stated that a lot of components have the ability to affect the City's rates and reserves; therefore, staff believed it prudent to go back and look at the City's rate levels again to ensure they are competitive in the marketplace and covering the City's legal and fiduciary obligations in the future.

Mr. Koenig explained that staff recommended that the cost of service and rate design study for FY 16 be completed by Burns & McDonnell for continuity of service.

Mr. Koenig stated that the industry was changing and there was more effort being put on the customer charge, to make sure that providers are recovering more capital and operating costs in the base rate charge. He noted that this would be a gradual change. Referring to the issue of competitiveness, Mr. Koenig reminded members that the City was very competitive at the residential level, noting that the City was currently the third lowest residential supplier in the State and, in the summertime, had been as high as second. However, he stated that the City was not competitive in other rate classifications, noting that the City was the second or third highest in some rate classifications. Mr. Koenig informed members that, going forward, staff would like to present Council with options regarding lowering commercial rates to attract businesses or keep businesses competitive; however, he explained that residential rates would have to be adjusted to make up for the differential.

Mr. Koenig stated that the proposed cost of service and rate design study would provide the most updated information available for Council's consideration of the FY 16 budget.

Mr. Koenig informed members that, this past year, $100,000 was originally budgeted for consulting fees in the Electric Fund, approximately $16,000 had been expended, and the approximate balance was $83,000. He stated that the required expenditure for the cost of service and rate design study was $28,500.

Mr. Perza questioned how often the rate studies are typically done. Responding, Mrs. Donna Mitchell, Controller/Treasurer, stated that the goal of the rate studies is to try to keep the rates the same over the 5-year forecast. She explained that when there are changes to the assumptions in the forecast, such as the recent PJM changes, staff determines whether Council is interested in having a new study completed.

Responding to Mr. Perza, Mrs. Mitchell explained that the last study was completed in 2012 for 2013-2017. However, staff was requesting a new study now, instead of waiting until 2017, because

the market has changed and the 2012 version is no longer helpful. She confirmed that if the study was completed this year, another study would not be requested until 2020, unless something changes.

Mr. Blakeman moved to recommend acceptance of the Burns & McDonnell Group proposal, as recommended by staff. The motion was seconded by Mr. Slavin and unanimously carried.

Mr. Blakeman questioned whether a monthly list of all electric utility rates for residential customers in the state was still published for public knowledge and, if so, he requested the inclusion of the list in the monthly report. Responding, Mr. Koenig stated that he did not believe such a list was published for public use; however, he would inquire.

TEA/NAES Report *(January)*

The TEA/NAES Monthly Report for January 2015 was provided to members to enable them to monitor electric sales and revenues received, which will provide a better understanding of any fluctuations that occur and allow the opportunity to make improvements if deemed necessary.

Referring to the Executive Summary on Page 1 of The Energy Authority, Inc. Monthly Management Committee Update - January 2015, Mr. Scott Koenig, City Manager, stated that the City's Power Supply costs for January were very close to the budgeted amount, noting that the costs had been tracking close to budget for the entire year.

Referring to Page 11, Mr. Koenig explained that the budgeted Total - Utilities Cost was approximately $30M and the actual year-to-date expenditures were approximately $28.2M, which indicated that the City was under budget for the first seven (7) months of the year. He stated that the load was tracking very close to expectations. Mr. Koenig reminded members that several years ago there were very wide gaps and large balances in the City's favor; however, the market had tightened up significantly and, as a result, the City tightened the projections. It was his expectation that this trend would continue for the next couple of years. Mr. Koenig explained that the projections are refined each year and that the rate study would be important in helping to ensure that the City's costs are allocated correctly. He stated that many of the City's financials are driven by the load calculation and that the cost of service study would help determine what the future load would be. Mr. Koenig noted that a number of the City's bigger customers, including Dover Air Force Base, were looking for efficiencies and, as systems are becoming obsolete, they are reviewing the next round of technology to see if it better fits their performance measures. He stated that there are some real advancements in technology that will help people reduce their energy usage; however, the average price of electricity will most likely go up in the long run because the City will still have to recover base costs.

Referring to Page 3, Mr. Blakeman questioned how the City had zero (0) generation for the month but achieved $370,223 in revenue for generation. Responding, Mr. Koenig stated that the generation payments are projected out over the entire year, and that number reflected the budget that is allocated to each month of revenue. Mr. Blakeman stated that the same number ($370,223) appeared on Page 9 as a credit for the Subtotal - All Generation. In response, Mrs. Donna Mitchell, Controller/Treasurer, explained that the amount is the net between the capacity credit on the PJM

bill and what the plant owes. In this instance, the net of those two (2) numbers is a net credit, and they consider that revenue. She confirmed that the City does not receive a check from PJM, instead there is a credit on the bill that is a reduction of the City's cost.

Responding to Mr. Blakeman, Mr. Harry Maloney, Electric Director, explained that the PJM Settlement Bill was typically received approximately one (1) week after the Monthly Management Committee Update. He stated that the February Settlement Bill could be provided to members with the February TEA/NAES Report.

Mr. Slavin moved to recommend acceptance of the TEA/NAES Monthly Report for January 2015, seconded by Mr. Blakeman and unanimously carried.

Garrison Oak Technical Park Project Updates

Mr. Scott Koenig, City Manager, provided the following updates on the Garrison Oak Technical Park (GOTP):

City Infrastructure/Calpine Energy Center

Mr. Koenig informed members that the past few weeks had been very difficult due to a combination of mud, frost, and general weather issues. He stated that A-Del Construction had completed a number of items required to prepare for paving on the eastern portion of Garrison Oak Drive. If temperatures increase enough to melt the frost line, A-Del Construction will complete the final grading of the road over the next few weeks, pave the eastern portion later this month, and transfer construction traffic to the east side, so they can begin utility construction on the west side, nearest to Uzin Utz. Mr. Koenig stated that the curb lines and sidewalks have been installed on the east side of the road, and the tower construction is starting to come up out of the ground.

Mr. Koenig expressed his opinion that the Calpine Plant was nearing the final stages. He stated that there was a very large delivery of a backup motor last week, "shake out" testing processes of the plant have begun, and the plant operators were finishing their training. Mr. Koenig informed members that, late last week, the City received notice from Calpine that they would begin testing of the wastewater pumps that are coming off of the holding tanks that they have.

Mr. Koenig stated that the pump station was currently in by-pass with George & Lynch, and they were finishing up all of the final testing of the pump station. He expressed his hope that the pump station would be in service before the next meeting update.

Mr. Koenig informed members that the water system on the east side was now in service to the 16-inch line running from White Oak Road back to the plant, and the City was very close to having full utility service to the Calpine Plant. He stated that the plant was still on schedule for commercial operation in June 2015; however, as they start bringing the systems up in the plant, they will be producing "test power" that will be sent to the grid over the next few months. Mr. Koenig explained that as soon as Calpine completes all of the requirements and protocols to turn on a power plant, such as internal testing, air permit testing, etc., and received authorization, the plant will go into commercial production.

Referring to the Uzin Utz property on the west side, Mr. Koenig stated that a lot of the metal panels were up on the building, and they were beginning to fill-in the windows and other parts of the structure; however, he noted that there was a significant amount of infrastructure that still needed to be completed on the west side. He explained that as soon as the construction traffic was moved over to the east side there would be multiple crews working on water lines and sanitary sewer extensions, and the completion of the west side road over the next few weeks.

Mr. Koenig informed members that, in general, public construction was behind schedule due to the recent weather. He anticipated that there would be a lot of activity related to the A-Del contract, and finishing up the George & Lynch contract. Referring to the Chicago Bridge and Iron contract, Mr. Koenig stated that the tower would start coming up out of the ground significantly over the next few months. He stated that the City would be ready for commercial operation of the center in accordance with what was promised, noting that it had been a very long construction project.

Responding to Mr. Blakeman, Mr. Koenig recalled that Calpine planned to have approximately 25 full-time jobs.

In response to Mrs. Williams, Mr. Koenig expressed his belief that tours of the Calpine Plant would be offered and anticipated that there would be a grand opening once the plant is operational since the plant was the template for President Obama's clean power initiative.

Responding to Mrs. Williams, Mr. Koenig stated that the grid would be the recipient of the testing electricity, explaining that the energy coming out of the Garrison block goes straight into the line that leads out to Cartanza.

Dover Sun Park

Members reviewed the Electric Revenue Fund FY15 - White Oak Solar Park Incremental Cost.

Mr. Hutchison questioned whether there was any update from Mr. Kirk Betts, the City's Utility Attorney, regarding Calpine. Responding, Mr. Koenig stated that Mr. Harry Maloney, Electric Director, and Mr. Betts had been discussing a potential agreement with Calpine in greater detail and Calpine's interest level had increased over the past few weeks. Mr. Koenig was hopeful that he would be able to provide more information in the near future.

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

Meeting adjourned at 5:44 p.m.

Beverly C. Williams
Chairwoman

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