UTILITY COMMITTEE

The Utility Committee Meeting was held on November 9, 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. Anderson (arrived at 5:08 p.m.) and Mr. Hosfelt.

AGENDA ADDITIONS/DELETIONS

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

Electric Department Integrated Resource Plan (IRP) Information Discussion

Mr. Harry Maloney, Electric Director, advised members that the goal of the Integrated Resource Plan (IRP) was to investigate the various physical and financial options open to the City to fulfill its capacity and energy needs now and in the future in an environmental stewardship manner. He explained that the study would be an all-hands approach from the Utility Department staff, The Energy Authority (TEA) as the main consultant, City management staff, the Utility Committee, the public, and City Council. Mr. Maloney stated that the study would proceed with data collection, verification, consumption review, and approval, and then move into exploring the various solutions to Dover's energy and capacity needs and obligations. He noted that he would serve as the point person between TEA and the City. In their negotiations over the past few years, TEA had offered to do the study for free as part of their annual fee. Mr. Maloney indicated that he initially thought that the project would go out for bid and wrote up a detailed Request for Proposals (RFP) outlining the type of reports being sought. TEA reviewed the RFP and stated that they would prepare a letter this week agreeing to proceed after some minor clarifications, noting that they had additional tools they could use for the project.

Mr. Maloney explained that the overall process would take at least a year. He informed members that TEA comes to the City for risk management meetings on the fourth Thursday of every month and additional meetings could be scheduled, perhaps on Wednesday evenings preceding those meetings, to discuss the IRP. He stated that TEA had also offered to be present twice within the year for meetings as needed with the Utility Committee and/or Council and the public. Mr. Maloney stated that efforts were being made to control costs, noting that this total project, if done by an outside contractor, would cost close to $200,000. He indicated that the expense was related to model runs using Pro Mod software, which is not cheap to run as it takes the data from all the generators and load buses in part of the eastern United States and runs an economic dispatch to determine the type of municipal generation construction that makes economic sense. Mr. Maloney advised members that he had posted 72 different computer run models using ideas that had been developed and they would be filtering through them. Mr. Maloney assured members that staff would be in constant contact with the Utility Committee and everyone involved as they proceed with the study.

Mr. Blakeman stated that, in years past, the City had made a fair amount of revenue from off-system sales, which the City no longer had the capability to do. Mr. Blakeman suggested that if there were some way to structure the organization so that it would not be capped at the federal requirement to stay at the load plus 10%, the City could be back in the business of selling power and making off-system revenue, so that its customers would not be paying the whole cost. He was unsure if this could legally be done; however, he felt it might be worth investigating.

Mr. Maloney advised members that Mr. Blakeman was referring to a 10% tax exempt bonding cap for all utility debt. He indicated that the City cannot be a net seller and if this cap were exceeded, the City would become a third-party independent generator that is subject to taxes and taxing bonds.

Mr. Blakeman stated that some municipalities are structured so that a board of directors runs the utility. The municipality continues to own the property and receives a fixed revenue stream from the utility. Mr. Blakeman was unsure if this would be enough to exempt the utility from being municipally owned or not. He felt that the City may be losing an opportunity and was unsure if the utility could be structured in this way.

Mr. Maloney stated that this was a tax question that they could explore. He advised that one (1) of the reasons that the City was able to be energy efficient for its size was because the tax exempt status for bonding provides an advantage, since the City serves the customers and citizens who back the bonds. This allows the City to enjoy a 2% to 3% spread on bonding, which is a big investment in capital.

Mr. Blakeman thought it might be worthwhile to see if enough off-system sales could be generated to offset the loss on savings from the exemption from bond taxes.

Mr. Maloney advised members that generally if capacity was at 110%, systems were efficient, the load was approximately 60 MW, and peak generation was 142 MW, theoretically the City could be selling 50 MW. *[City Clerk's Office Note: Subsequent to the meeting, the City Clerk's Office was informed that the correct figure for peak generation was 110 MW.]* Responding, Mr. Blakeman noted that the City did not seem to do this.

Mr. Maloney stated that the City was now dealing with Calpine, which has a heat rate that is half that of Unit 3, which is a 100 MW unit.

Mr. Blakeman noted that any system that might be built would be better than what the City currently has, which could put the City back into this possible revenue stream at a limited amount.

Mr. Hutchison questioned when the last time a study such as the IRP was done. Mr. Blakeman, as a former Electric Director for the City, stated that he was unsure.

Mr. Hutchison questioned how often such a study was recommended. Responding, Mr. Maloney stated that in the past, load was plotted out, load growth was reviewed, and building was done to meet the obligation. However, he explained that the current market and rules were changing so much that it would be necessary to keep on top of it. Mr. Maloney stated that the Delaware Municipal Electric Corporation (DEMEC) runs a brief model every couple of years. He indicated that after building the model and getting it going, staff may revisit this study in a couple of years and update it, rather than starting from scratch.

Quarterly Review of Utility Related Capital Investment Plan (CIP) (Electric and Water/ Wastewater) *(July, August, and September)*

Mr. Scott Koenig, City Manager, reviewed the Quarterly Report for the Capital Investment Plan (CIP) as of September 30, 2015. He advised members that this report tracks capital improvement projects; vehicle purchases planned for the Water/Wastewater, Electric, and General Funds; and Community Transportation Fund spending. Mr. Koenig indicated that total funding sources were estimated at $26.59M.

Mr. Koenig reviewed the major CIP projects in the General Fund. He explained that improvements at the Garrison Oak Technology Park (GOTP) related to general infrastructure, including the roads, curbs, sidewalks, and storm sewer system, would likely be completed by the end of the calendar year. He indicated that the Self-Contained Breathing Apparatus (SCBA) and radio purchases for the Fire Department were complete and that equipment for park and playground improvement would be purchased as a carry forward from last year. Billing for the Street Program was being finished, as well as storm sewer repairs and PW2 site improvements that were moved from last year's budget to the current year.

Mr. Koenig indicated that capital purchases had begun for the year and the annual contribution had been made to the Robbins Hose Company. The farmhouse at the GOTP had been demolished and abandonment of a small water supply well associated with the farmhouse was being completed. It was expected that Lot 13, where the farmhouse was located, would be transferred to Advantech, Inc. within the next 30 days.

Mr. Koenig advised members that a camera monitoring station would be installed at the police station, and bids for the Fall component of the FY 16 Street Program would be considered by City Council during their meeting scheduled for November 23, 2015. Staff was experiencing difficulty getting the Salt Storage Barn Project completed, had bid it out several times, and was making arrangements to bid it again. It was hoped that a successful bid would be received within the parameters described. Mr. Koenig stated that emergency street and storm drain repairs were underway.

In regard to the Community Transportation - Major CIP Projects, Mr. Koenig advised members that a number of these projects were underway. Paving of the Village of Cannon Mill Phase I, II, and III were complete, and it was hoped that the Phase IV, the final phase, would be complete by the end of the year, before bad weather sets in.

In reference to the Water/Wastewater Improvement and Extension Fund - Major CIP Projects, Mr. Koenig explained that the 1.0M gallon elevated water storage tank project planned for the northwestern component of the City had lagged. He stated that it was hoped that staff would be bringing a memorandum of understanding (MOU) with a property owner to Council soon, so that the property could be purchased and tower construction could begin. Mr. Koenig noted that the location of the property would be at the very edge of the City.

In regard to the water storage tank construction at the GOTP, Mr. Koenig informed members that the exterior of a 1.5M gallon water tower was complete and its telemetry and control systems would be completed over the next few weeks, with the expectation that the tower would be online just after

the first of the year. Sanitary sewer improvements, including the new pump station at the GOTP, were being completed. The upgrade of the White Oak Farms Pump Station and the abandonment of a small station on White Oak Road were moving toward completion by the end of the calendar year.

Mr. Koenig stated that there had been difficulty getting the contractor for the FY14 Brandywine Pump Station project to move forward, and Council members had been notified that during the past weekend there was a sanitary sewer backup related to a bypass pumping failure with respect to this project. Staff was scheduled to meet with contractors later in the week to determine the final path forward on the project, which was currently stalled. Mr. Koenig stated that the station was currently on bypass with temporary pumps in place. He indicated that the Westover Pump Station was now estimated at approximately $1.3M and the contractor had mobilized and begun laying out the anticipated work schedule and improvements associated with that project.

Referring to the FY15 Water/Wastewater Improvement and Extension Fund - Major CIP Projects, Mr. Koenig explained that several projects related to the West Dover Connector were nearing completion. The Retreat Pump Station Replacement project came in over budget and staff was refining the bid documents and would rebid that project since only one (1) bid was received and it was higher than anticipated.

Mr. Koenig reviewed the FY16 Water/Wastewater Improvement and Extension Fund - Major CIP Projects that were currently underway, noting that nearly 100% of the fence installation at the Bayard Avenue water tower was complete and other projects were in various stages of development or bidding and staff expected to move forward with all of the projects this fiscal year.

In regard to the Electric Improvement and Extension Fund - Major CIP Projects, Mr. Koenig explained that the General Scott Switchgear project had been underway for some time. The switchgear had been delivered approximately seven (7) to 10 days ago, staff was working on getting it connected, and it was hoped that the project would be closed out by the end of the calendar year. The 69 KV relocation at the Garrison Farm was complete, as was the VanSant capacity increase. Mr. Koenig stated that staff was now working on plenum improvements that must be in place prior to late Spring 2016. He indicated that most of the FY 15 projects were moving forward toward completion and Mr. Harry Maloney, Electric Director, had begun the leg work associated with a majority of the electric projects outlined in the capital plan.

Mr. Anderson questioned if there were any budgetary items regarding the emergency breakages or cost overruns that should be on the radar. Responding, Mr. Koenig stated that some Public Works projects had created budget difficulties. He advised members that bids for the Hazlettville Road Interceptor project came in quite high and the project would be rebid this year in hopes that better timing would result in lower bids. Mr. Koenig stated that the City typically receives three (3) to four (4) bids for each pump station upgrade or replacement; however, only one (1) bid was received for the Retreat Pump Station Replacement and it was approximately$90,000 higher than anticipated. He noted that a number of other pump station bids had been close to the budget, perhaps plus or minus $20,000 or $30,000, but not $90,000 on a $400,000 project.

Mr. Koenig informed members that staff was hopeful that bids for water projects would come in right at budget. He explained that if a project comes in over budget and it is within the City Manager's authority, staff moves money within the capital plan to move forward those projects that are ready for construction, noting that some changes require Council approval. Mr. Koenig indicated that staff had been diligent about trying to get the capital plan caught up and, outside of a handful of projects, staff was addressing current year projects.

Mr. Koenig explained that a number of projects at the power plant would be looked at with the new power plant manager and information from the Integrated Resources Plan (IRP) would be used. He reminded members that earlier in the year, the Assistant Generation Manager position was identified as a position to be filled. Staff was getting ready to advertise the position and would be back before Council to confirm the desire to move forward. Mr. Koenig indicated that this was an important position in planning the future of the utility since the utility must have manpower and intellectual power in place so that gaps do not develop as people retire. He noted that it is more important than ever to have people who understand the electric market, which is changing more rapidly than anticipated. Mr. Koenig stated that the system was now very interactive and technical and included solar, wind, and other types of generation, as well as battery storage issues and additional suppliers who are trying to take advantage of the market. On the distribution side, Mr. Koenig expressed staff's belief that there would be land purchases for future substations and necessary improvements to the system. Mr. Koenig advised members that modeling was showing that baseline costs were going up, but the load was flat or in some cases negative. He stated the need to figure out how to manage those issues going forward because capital improvements may need to occur.

Mr. Koenig stated that an evaluation of the electric system was done several years ago, and the City has a very good electric system with high reliability. This was being promoted as an economic or competitive advantage over other areas, since the City has a very consistent flow of energy for business and few substantial outages, which is an advantage to those trying to locate facilities. He noted that staff was still working on issues related to commercial rates and would be making related recommendations in the future.

Mr. Koenig informed members that the capital plan is very dynamic and there is a need to make sure that facilities are in place on the General Fund, Water and Wastewater Fund, and Electric Fund sides to set the City up for the ability to grow economically. He indicated that it would not be desired to have to scramble to develop infrastructure if there were an advantageous economic development opportunity. Mr. Koenig felt that the GOTP is probably the premiere piece of land in the State for economic development opportunities, and the City needed to get partners to the area and interested in the facility.

Mr. Hosfelt questioned if there were residents with concerns related to the water tower in the northwest part of the City. Responding, Mr. Koenig stated that a potential location was sited adjacent to Maple Glen behind a church that was willing to sell or lease a piece of property for the tower. The site was in very close proximity to the Maple Glen subdivision and the residents objected. The placement of the tower at that location would have required several variances or waivers by City Council in accordance with the code, since there was no road at the location. Staff

had been working for more than a year to secure a secondary location and were currently working with a developer. Mr. Koenig felt that a MOU would be signed shortly so that the tower could be sited on the northern boundary of the City, and it would not be located immediately next to existing houses.

Mr. Neil questioned if the City's load would increase as companies and businesses move in to the GOTP. Responding, Mr. Koenig stated that it would depend upon what happens between now and when these operations begin. He indicated that people were using more efficient air-conditioning systems, lighting, and appliances; therefore, the residential load was altering. Mr. Koenig advised that some newer houses have smaller loads; however, much larger houses were also being built in some areas in the City. He informed members that businesses and manufacturers are actively looking for ways to increase energy efficiency and reduce their costs. Mr. Koenig noted that smaller commercial properties may have enough private improvements in their systems to make their load appear flat when they come online. He advised members that Energizer was bringing on a maximum of 12 MW, which would increase the load at their plant by one-third and would cause a true increase in the City's load. Mr. Koenig stated that without more increases of this nature, as the years progress, the City's load will start to drop slightly.

Mr. Hutchison asked if the City's efforts to reach out to larger users and educate them on how to be more efficient and effective in running their operations would continue. In response, Mr. Koenig stated that staff had met with some larger customers and learned that these customers do not all have the same issues associated with power supply but have individual goals and objectives. For some, climate control in their facility is the premium issue for them and they cannot shed or alter the load. Others can alter load and are willing to try to work on load management. Mr. Koenig felt that one (1) way for the City to save money in the long run would be to look at load management and try to shave off some of the peaks so that the City does not have to purchase that amount of capacity in the market forever. He noted that managing load is a very dynamic two-way street.

Mr. Koenig advised members of the need to change how the utility functions by getting the word out to customers to try to drop off or shed load, or use load in the off hours. He thought that Delaware Electric Cooperative (DEC) did a very good job of beating the peak and felt that the City should improve in that area. Mr. Koenig stated the need to actively manage demand to get the lowest reasonable cost for its customers; however, this is time consuming, manpower intensive in some cases, and a real change from past procedures. He reiterated that the City's electric utility is a big plus in the economic development realm, because the City has the ability to set rates and make decisions as to where its return should be and to attract residential or commercial development or re-development to the area. Mr. Koenig felt that a lot of things were needed to become a more nimble utility that is more reactive to customers. He stated that customers favored the City's reliable power stream and, although they sometimes complain about the costs, they were willing to consider their consumer behavior as a way to help manage costs. Mr. Koenig explained that, in order to manage the load going forward, the City needed to continue to foster this two-way communication with the larger customers and reach out to all other customers as well. He advised members that the potential negative load curve could be a plus if managed for the economic good of the utility.

TEA/NAES Reports *(August and September)*

The TEA/NAES Monthly Reports for August and September 2015 were 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.

Mr. Koenig reviewed the Executive Summary on Page 1 of the TEA Report for September 2015, noting that the cost of power supply in July, August, and September was under budget, and in some cases substantially under budget. The general trend was that the actual load had been slightly higher than expected. Mr. Koenig stated that, for September, the forecasted load was 62,200 MWh and the actual total load was 66,689 MWh.

Referring to the Budget Report on Page 10 of the TEA Report for September 2015, Mr. Koenig stated that the final cost of service to rate payers was budgeted at $70.92 and delivered at $60.50; therefore, there was a savings of $10.42. He noted that year-to-date for the current fiscal year, the City was under budget in power supply and staff was looking for ways to continue that through the 12-month planning horizon to keep those costs under the anticipated budget.

Mr. Koenig advised members that staff was working with the new plant manager to get accustomed to how he manages the plant. Mr. Harry Maloney, Electric Director, had been discussing how to avoid problems related to cold weather and there had been preparations including additional fuel oil, stock piles, etc., so that power could be delivered if there is a very cold event.

Mr. Blakeman, referring to the Generation Summary on Page 4 of the TEA Report for August 2015, requested clarification regarding why in August 2015 revenue was budgeted at approximately $0.5M but negative revenue was reflected. Responding, Mr. Maloney explained that generation failed to perform its capacity obligations and this was a generation fee.

Updates

Mr. Scott Koenig, City Manager, provided the following updates:

Green Energy Funding and Programming

Members reviewed details regarding Green Energy Funding and Programming as of November 3, 2015.

National Pollution Discharge Elimination System (NPDES) Municipal Separate Storm Sewer Systems (MS4) Permit

Mr. Koenig stated that National Pollution Discharge Elimination System (NPDES) Municipal Separate Storm Sewer Systems (MS4) Permits would be reissued as a comprehensive umbrella permit in the Spring. The City's environmental scientist and permit manager had been working diligently to try to bring the City into compliance with the parameters of this permit. Staff had also been working on a potential stormwater utility, which would be brought before Council for consideration in the future and would relate to capital project planning, fees, and managing MS4 permit obligations for the City. Mr. Koenig indicated that the City was actively working on MS4 permit obligations and, now that personnel were in place for this, staff felt much more comfortable moving forward with the permit, authorization, and annual reporting associated with it.

Garrison Oak Technical Park Project Updates

Mr. Scott Koenig, City Manager, provided the following updates:

City Infrastructure

Mr. Koenig stated that staff anticipated wrapping up all contracts related to the Garrison Oak Technical Park (GOTP) by the end of the year or January 2016 and releasing all final payments. Minor close-out items were being completed for each of the contracts, so there was still construction activity, but the project was more than 90% complete.

Calpine Energy Center

Mr. Koenig reminded members that the Garrison Energy Center had been in full operation since June 1, 2015. He advised that a fuel tank had recently been installed and was working its way through the permitting process. Mr. Koenig stated that there were initial complaints related to noise associated with a valve failure; however, the plant had been relatively quiet after the first six (6) to eight (8) weeks of operation. He noted that the City recently completed a water system flushing across the City and there were very few complaints. Mr. Koenig advised members that water was moving very quickly through the system on the east side, especially when the plant is up and running, and this had been good for the quality of the water inside the system.

Mr. Koenig indicated that there had been additional benefits since Calpine came online. He noted that summertime revenues appeared to be meeting the outlined goals and he was looking forward to seeing what they would be over the entire year.

Dover Sun Park

Mr. Koenig reviewed a spreadsheet entitled "City of Dover Electric Revenue Fund - FY 15 - White Oak Solar Park Incremental Cost." He stated that the year-to-date incremental costs reflected that the City was paying approximately $467,000 more for this power than would have been paid in the market. He advised members that this was a necessary component of the utility and the City must look at how to manage these costs and how solar energy will play into the City's portfolio in the future.

In response to Mr. Blakeman, Mr. Koenig stated that the increased cost was spread across all kilowatt hours sold.

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

Meeting adjourned at 5:45 p.m.

James L. Hutchison, Sr.
Chairman

JLH/TM/js/dd
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