UTILITY COMMITTEE

The Utility Committee Meeting was held on January 27, 2014 at 5:31 p.m. with Chairwoman Williams presiding. Members present were Mr. Perza (arrived at 5:33 p.m.; departed at 5:36 p.m.; returned at 5:39 p.m.), Mr. Slavin, Mr. Blakeman, and Mr. Snaman. Members of Council present were Mr. Dixon (arrived at 5:40 p.m.) and Mr. Hutchison. Mayor Carey was also present.

AGENDA ADDITIONS/DELETIONS

Mr. Blakeman moved for approval of the agenda as presented, seconded by Mr. Snaman and unanimously carried.

Explanation of PJM (*Pennsylvania, Jersey, Maryland Power Pool*) Reactive Service Charges - Robert Trinnear, The Energy Authority

Mr. Robert Trinnear, The Energy Authority, reviewed a Presentation - Reactive Service Charges Update, January 2013. In recent months, the TEA/NAES Reports provided to members have reflected actual charges for reactive services that were much higher than budgeted. Mr. Trinnear stated that reactive services are used to provide voltage control on the power grid, basically allowing power to get where it needs to go. Reactive service charges are billed to generators and load-serving entities, such as the City of Dover.

Mr. Trinnear stated that the allocation change in the market tariff went into effect December 1, 2012. PJM (Pennsylvania, Jersey, Maryland Power Pool) projected that the impact of this rule change would be small and the change was not modeled. He explained that reactive service charges were previously allocated across the whole PJM region but are now allocated directly to the Delmarva Power and Light (DPL) zone, which is the Delmarva Peninsula and includes the City of Dover. Mr. Trinnear indicated that the more targeted allocation has had a very large monetary impact on the City of Dover and entities like Dover. Referring to the Reactive Services Invoice Amount on Page 4 of the presentation, Mr. Trinnear stated that the chart illustrates the significance of the tariff change and its impact on the City. The average monthly reactive services charge in 2012 was $45,000; however, monthly charges were as high as $370,000 in 2013. In December 2013, the charge was approximately $204,000. Mr. Trinnear stated that many entities affected by the new tariff allocation, like the City of Dover, have been very vocal in asking for a change in the tariff due to its massive impact on cities and utilities.

Mr. Trinnear advised members that, in addition to the tariff change, during the previous week PJM had provided a presentation outlining a $25M to $30M error in the calculation of reactive service charges, equating to an approximate 12% error. Between August 2013 and December 2013 there was an error in the PJM allocation method for reactive service charges, which resulted in PJM paying generators who should not have been receiving money. As a result, load-serving entities like the City of Dover will receive an estimated 12% credit. He indicated that the City of Dover should anticipate the entire 12% credit on the January invoice; however, it is possible that the amount for August through October may be credited in January, and the amount for November and December may be credited in February. Since PJM has corrected the procedural error, the City of Dover should notice a reduction in reactive service charges in the future.

Mr. Trinnear informed members that there will also be transmission upgrades in the DPL zone in late spring 2014 which should help mitigate many of the reactive service charges. In addition, he noted that PJM was trying to ensure that more of these charges are allocated to a pricing mechanism so that entities are able to hedge this risk and these charges, rather than receiving a bill they cannot do anything about.

Responding to Mrs. Williams, Mr. Trinnear explained that PJM has a stakeholder process in which rules are considered by committees consisting of generators and load-serving entities. The tariff change was approved through the stakeholder process in an effort to create fairness across the whole PJM region.

In response to Mrs. Williams regarding the impact when the City sells electricity from its own generators to PJM during August and January for peaking power, Mr. Trinnear stated that the City does not receive a great deal of reactive service charges for these generators. He explained that the City of Dover was not the source of the problem; however, there are transmission and voltage issues within the DPL zone south of Dover that affect the City since it is part of the DPL zone. He indicated that the City's generators would not be able to greatly reduce these charges. Mr. Trinnear advised members that PJM was well aware of the high reactive service charges in the DPL zone and was investigating possibilities for mitigating this.

Responding to Mrs. Williams regarding future decisions pertaining to the reactive service charges, Mr. Trinnear stated his opinion that any solution would likely improve things on behalf of entities like the City of Dover, as these entities had been extremely vocal about this issue and were trying to effect change.

Mrs. Williams questioned whether the impact of the tariff change was known when the decision was made to implement it. Mr. Trinnear indicated that when he asked PJM this directly, they responded that it was not known; however, PJM could not simply repeal the measure when the impact was realized because all decisions are subject to the stakeholder process. He informed members that this matter was currently being considered again through the committee process.

In response to Mr. Slavin, Mr. Trinnear indicated that he did not know whether there was any opposition at the time the rule was made or if there was a minority position counter to what was passed. He expressed his opinion that, in hindsight, if this type of impact had been projected, the rules would not have gone into effect. He stated that this was not considered a major issue, so it was not modeled and the impact was not foreseen. Not much attention was paid to the change until its impact was felt.

Responding to Mr. Slavin, Mr. Trinnear stated that The Energy Authority (TEA) was working with PJM directly to voice the City of Dover's position that additional changes must be made to the allocation of the reactive service charges. He stated that, as the stakeholder process progresses, he would inform the City if he felt a resolution from City Council would be effective.

In response to Mrs. Williams, Mr. Trinnear indicated that a tariff revision was expected by mid-year.

Responding to Mrs. Williams, Mr. Scott Koenig, City Manager, stated that, with all of the heightened expenditures for the reactive service charges, the City had spent approximately $500,000 more than anticipated through the end of December. He felt that the overage should not reach $1M for the year, since there had been an adjustment.

In response to Mr. Blakeman, Mr. Trinnear stated that he was unsure what kind of improvements Delmarva Power & Light would be making; however, it was anticipated that the improvements would be complete by late spring and should mitigate reactive service charges quite substantially.

Responding to Mr. Blakeman, Mr. Trinnear concurred that putting Unit 3 on spinning reserve for reactive control would have little to no impact on the reactive service charges, since the problem does not lie with the City of Dover.

In response to Mr. Snaman, Mr. Trinnear reiterated that reactive service charges are allocated by zone and, although the City of Dover does not contribute to the problem, the City is part of the DPL zone and there are voltage issues within the zone. He expressed his opinion that it would be too complicated to allocate the charges by individual node or city, but he was unsure of the exact methodology.

Responding to Mr. Perza, Mr. Trinnear clarified that the credit would only cover the 12% error that occurred between August and December 2013, not the entire $500,000 since some of that overage amount was the result of the charges being higher than the previous year due to the allocation change.

In response to Mrs. Williams, Mr. Trinnear stated that, based on what the City paid from August to December 2013, he estimated that the 12% credit would equate to approximately $120,000; although it could be higher because the DPL zone had one of the highest rates for reactive service charges.

Permanent Easement and Temporary Workspace Agreements - Eastern Shore Natural Gas

Mr. Scott Koenig, City Manager, reviewed staff's request for the City to execute a permanent easement and temporary workspace agreements with Eastern Shore Natural Gas (ESNG), to allow ESNG to construct a 16" natural gas pipeline to service the Garrison Energy Center (GEC). He stated that this project was necessary to provide high pressure gas to the Calpine facility and the Garrison Tract. Staff had been working with ESNG and their engineers to identify the easement areas and complete the necessary documentation to allow ESNG to begin construction immediately.

Staff recommended authorizing the City Manager or his designated staff to execute the easement agreement and other necessary agreements with Eastern Shore Natural Gas (ESNG) to facilitate the construction of the proposed 16" natural gas pipeline across lands owned by the City of Dover, as depicted in the referenced agreements. Financial consideration for the easements shall be delegated to the City Manager and the City Manager will notify City Council of the results.

Mr. Koenig noted that the staff was still working on the financial consideration for the easements but estimated an approximate cost of $700 per acre.

In response to Mrs. Williams, Mr. Koenig stated that one (1) of the easements was approximately three-quarters of an acre and there was not a large amount of land in total.

Responding to Mr. Slavin, Mr. Koenig explained that this item would be considered by Council at the meeting being held later in the evening in order to allow ESNG to begin construction immediately. ESNG had originally anticipated starting construction in Cheswold and working south to the GEC; however, due to the scheduled Firefly Music Festival and NASCAR race at Dover Downs, ESNG decided to invert the construction time line to begin at the GEC.

In response to Mr. Perza, Mr. Koenig stated his opinion that it was not necessary for the Committee to specifically allocate an amount for the easement. The standard used for other easements at the GEC was $700.

Mr. Blakeman moved to recommend approval of staff's recommendation to authorize the City Manager or his designated staff to execute the easement agreement and other necessary agreements with Eastern Shore Natural Gas (ESNG) to facilitate the construction of the proposed 16" natural gas pipeline across lands owned by the City of Dover, as depicted in the referenced agreements, and to delegate financial consideration for the easements to the City Manager, with the City Manager to notify City Council of the results, seconded by Mr. Snaman.

Responding to Mayor Carey, Mr. Koenig stated that pictures were taken of the area to ensure restoration; however, video was not use. He assured members that the area would be documented prior to construction.

On a call for the question, the motion to recommend approval of staff's recommendation to authorize the City Manager or his designated staff to execute the easement agreement and other necessary agreements with Eastern Shore Natural Gas (ESNG) to facilitate the construction of the proposed 16" natural gas pipeline across lands owned by the City of Dover, as depicted in the referenced agreements, and to delegate financial consideration for the easements to the City Manager, with the City Manager to notify City Council of the results was unanimously carried with Mr. Slavin abstaining. *(City Clerk's Office Note: Due to time constraints, this item was placed on the Council agenda for the meeting being held later in the evening.)*

Easements and Rights-of-Way between City of Dover and Delmarva Power & Light Company

Mr. Scott Koenig, City Manager, reviewed staff's request to grant a series of easements and rights-of-way for the radial line from the Garrison Energy Center (GEC) to the Cartanza Substation. He noted a correction to the documentation provided in the Committee Action Form (CAF), dated January 22, 2014, related to this item. Although the CAF indicated that Document "A", Document "B", and Document "C" would grant easements and rights-of-way to Delmarva Power & Light Company (DP&L), he explained that Document "A" and Document "B" would grant easements to DP&L but that Document "C" was the original easement to the GEC which will subsequently be turned over to DP&L at some point in the future.

Staff recommended authorizing the City Manager to execute the final versions of all components of Document "A" and Document "B", which are easements to DP&L, as well as Document "C", the original easement to the GEC which will subsequently be turned over to DP&L at some point in the future after construction, for the granting of easements and rights-of-way to both DP&L and the GEC for the proposed construction, operation, and maintenance of power lines and structures associated with the transmission of electric power from the GEC to the Cartanza Substation; and authorizing the City Manager to amend the original lease between the City of Dover and the Garrison Energy Center, LLC to add the acres described within the documents (a total of 8.4301 acres) in accordance with the rents described in the lease.

Mr. Koenig advised members that instead of being paid for the easements, the City Manager would amend the master lease with the GEC to include the easement areas as part of leased land, so that the City would be financially compensated for it throughout the agreement period with GEC.

Responding to Mr. Blakeman, Mr. Koenig stated his understanding that DP&L would own and be responsible for maintenance to the radial line from Calpine to the Cartanza Substation.

In response to Mrs. Williams, Mr. Koenig stated that the voltage for the radial line would be 230kV.

Responding to Mr. Hutchison, Mr. Koenig stated that construction of the 16" gas line, the GEC, and the radial line was scheduled for completion by the end of 2014. The GEC was expected to produce power to the PJM (Pennsylvania, Jersey, Maryland Power Pool) grid in June 2015.

Mr. Perza moved to recommend approval of staff's recommendation to authorize the City manager to execute the final versions of all components of Document "A" and Document "B", which are easements to Delmarva Power and Light (DP&L), as well as Document "C", the original easement to the Garrison Energy Center (GEC) which will subsequently be turned over to DP&L at some point in the future after construction, for the granting of easements and rights-of-way to both DP&L and the GEC for the proposed construction, operation, and maintenance of power lines and structures associated with the transmission of electric power from the GEC to the Cartanza Substation; and to authorize the City Manager to amend the original lease between the City of Dover and the Garrison Energy Center, LLC to add the acres described within the documents (a total of 8.4301 acres) in accordance with the rents described in the lease. The motion was seconded by Mr. Blakeman and unanimously carried. *(City Clerk's Office Note: Due to time constraints, this item was placed on the Council agenda for the meeting being held later in the evening.)*

By unanimous consent, the meeting adjourned at 6:00 p.m.

Beverly C. Williams
Chairwoman

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