UTILITY COMMITTEE

The Utility Committee Meeting was held on December 9, 2013 at 5:00 p.m. with Mr. Perza presiding in the absence of Chairwoman Williams. Members present were Mr. Slavin, Mr. Blakeman, and Mr. Snaman. Members of Council present were Mr. Dixon 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.

Service Agreement for the Natural Gas Distribution System in the Garrison Oak Technical Park (GOTP) - Chesapeake Utility Corporation

Mr. Scott Koenig, City Manager, reminded members that the City of Dover has been acting as the developer of the Garrison Oak Technical Park (GOTP). As the developer, staff felt it would be advantageous to offer natural gas service to the various tenants in the industrial park; therefore, the City has requested that natural gas infrastructure be installed within the technical park so that it is available to potential purchasers and tenants. Members were provided a standard Service Agreement submitted by Chesapeake Utilities Corporation which outlines the respective responsibilities of the City as well as Chesapeake Utilities Corporation. He advised members that the proposed Agreement has been reviewed by the City Solicitor's Office and has been amended accordingly.

In accordance with the proposed Service Agreement, Mr. Koenig noted that all costs to install the required infrastructure will be the responsibility of Chesapeake Utilities Corporation; however, the Agreement includes a revenue shortfall calculation that the City of Dover would be responsible for should the revenues from the investment not be equal to or in excess of the initial capital investment within the first six (6) years after the effective date of the Agreement. He assured members that the maximum financial exposure to the City of Dover is estimated to be less than $130,000.

Mr. Koenig advised members that the proposed Agreement includes several exhibits, including a plot plan for the GOTP. Based on conversations with staff, he explained his understanding that the natural gas for tenants of the GOTP would be extended from White Oak Road through the horseshoe road network in the subdivision and back out to White Oak Road. At this time, he stated that it is not intended to be connected to the 16 inch lateral for the Calpine Project. He explained that the maximum financial exposure ($130,000) assumes that there are no tenants for the first six (6) years and that this amount would be less whatever gas Uzin Utz would be using as the first tenants to connect to the distribution system.

Staff recommended that the City Manager be authorized to execute the Service Agreement with Chesapeake Utilities Corporation for the Natural Gas Distribution System within the GOTP.

Responding to Mr. Snaman, Mr. Koenig stated that Uzin Utz has gone before the Planning Commission and are working their way through the permitting process. It is their hope to break ground in March 2014, with the facility opening a year later.

In response to Mr. Blakeman regarding the documents on file with the Public Service Commission and the six (6) times net revenue test, Mr. Koenig stated that he had not reviewed the documents but that staff could request the City Solicitor's Office to review them.

Responding to Mr. Perza regarding the six (6) times net revenue test, Mr. Koenig indicated his understanding that it is the standard formula used for this type of return on investment. He also indicated that the net revenue test will be conducted on the final sixth year and not done on an annual basis. He explained that the "true up" date will be six (6) years after the Agreement and noted that there is a revenue schedule provided as Exhibit B of the Agreement. Regarding the requirement for the developer to pay any shortfall amount within thirty (30) days from the time the Company gives notice that a shortfall has occurred, Mr. Koenig stated that although a one-time payment would be required, he felt confident that there would be no issues if the City needed to establish a payment schedule. He assured members that staff would be budgeting any amount that may be required and making every attempt for no shortfall to occur by acquiring tenants.

Mr. Blakeman moved to recommend approval of staff's recommendation to authorize the City Manager to execute the Service Agreement with Chesapeake Utilities Corporation for the Natural Gas Distribution System within the Garrison Oak Technical Park (GOTP), seconded by Mr. Slavin and unanimously carried.

TEA/NAES Report (October)

The TEA/NAES Monthly Report for October 2013 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.

Mr. Scott Koenig, City Manager, reaffirmed that the City's costs are coming in slightly higher than anticipated which has been a trend most of the budget year. He stated that staff has reviewed the budgets, expenses, etc. and that the City's budget is tight. He noted that page 12 of the report provided the year-to-date amounts and that, although most items are tracking as anticipated, there are concerns with the "PJM - ARR, Transmission and Fees," explaining that the fees are much higher than anticipated. As a result, staff has been talking with The Energy Authority for the past several months, as well as relaying the City's concerns to both the Delaware Municipal Electric Corporation (DEMEC) and Mr. Kirk Betts, Betts & Holt LLP, the City's Energy Attorney. Mr. Koenig stated that staff expects to submit a report to the committee in January to discuss the impact of the fees and the cause of the increases. He advised members that there has been an unanticipated reallocation of costs for two (2) entities that are purchasing power, and since the City of Dover is one (1) of the entities that purchases power off of the PJM grid, the City is subject to these fees.

Mr. Blakeman explained the complexity of the PJM billing invoice and questioned if there was some way of providing a breakdown. He noted that there are 72 items listed and that there are five (5) PJM related costs for the power supply and three (3) for the plant and requested that they be listed by budget item. Responding, Mrs. Donna Mitchell, Controller/Treasurer, stated that TEA currently provides the City with a breakdown of the charges by General Ledger accounts. She stated that she will request TEA to provide members a copy of the breakdown for a better understanding of the bill.

Mr. Slavin moved to recommend acceptance of the TEA/NAES Monthly Report for October 2013, seconded by Mr. Blakeman and unanimously carried.

UPDATES

Members were provided the following updates:

Calpine Energy Center/Garrison Oak Technical Park Project

Mr. Scott Koenig, City Manager, advised members that the City continues to have weekly meetings and telephone conference calls with the Calpine Corporation regarding the Energy Center. Currently, the big items underway are the deliveries, finalization of easements, and alignment of the transmission lines from the Calpine/Garrison Energy Center back to the 230kV tie (Cartanza Substation). He stated that the City continues to work on their responsible components of the infrastructure. Pre-bid meetings were held last week for the water system, gravity sewer system, pump station force main, streets, and storm sewer associated with the project. It is anticipated that the bid package will be due during the early part of January 2014. There were approximately 20 contractors who attended the mandatory pre-bid meeting. In order to remain on schedule, he stated that staff should present the bids to City Council during the second Regular Meeting in January 2014.

Mr. Koenig reiterated that there are numerous large loads scheduled for delivery in December. He advised members that Calpine has made their Industrial Waste Permit Application to Kent County and that the City is analyzing the information to determine the best path forward for the wastewater from that facility. He stated that staff continues to work through normal construction issues and that the City has finalized the alignment of the 16 inch lateral through the City property and into the Calpine/Garrison Energy Center and will not be constructing immediately adjacent to or on top of the water line that was installed a few months ago. He believed that a certificate for construction was received for the natural gas lateral.

In regard to the Garrison Oak Technical Park, Mr. Koenig stated that the City is continuing to work through the final land agreement for lot #12 for the Uzin Utz facility and noted that the Planning Commission granted conditional approval. As a result, Uzin Utz is now making submissions to agencies in order to move forward with the project. Mr. Koenig reiterated the expectation that Uzin Utz will obtain a building permit in March 2014, and that construction will take approximately 12 months.

Mr. Koenig explained that the Calpine Energy Projects, the Uzin Utz Project, and the City's infrastructure project are all converging on an early 2015 completion.

Dover Sun Park

Mr. Scott Koenig, City Manager, noted that members were provided a spreadsheet - Electric Revenue Fund, FY14 - White Oak Solar Park Incremental Cost, based on previous requests and comments. He advised members that the incremental Sun Park cost, from July through October, was $162,360. He explained that the incremental Sun Park cost reflects the increased cost to the City as a result of using solar energy, compared to the amount that would have been paid if the City used regular fossil fuel. He stated that solar energy is necessary for the City to meet the demands under

the regional portfolio standards. In addition, he explained the importance of understanding that the production of this 10+ megawatts of solar energy in the summertime reduces the City's peak demand in the PJM; therefore, while it is more expensive, it is beneficial to the City.

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

Meeting adjourned at 5:20 p.m.

Adam M. Perza
Acting Chairman

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