UTILITY COMMITTEE

The Utility Committee Meeting was held on June 10, 2013 at 5:30 p.m. with Mr. Perza presiding in the absence of Chairwoman Williams. Members present were Mr. Blakeman and Mr. Snaman. Mr. Slavin was absent. Members of Council present were Mr. Dixon, Mr. Lynn, and Mr. Hutchison. Mayor Carey was also present.

AGENDA ADDITIONS/DELETIONS

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

Proposed Revisions to the Dark Fiber Leasing Standard Operating Policy

Mr. Scott Koenig, City Manager, advised members that the City of Dover Electric Department owns and operates a fiber optic loop around the perimeter of the City. This loop is used as part of the electric transmission protection system, two (2) way radio communication system, and data/telephone transmission for City and Utility facilities. Within this fiber network there are spare fibers that are not utilized or planned to be utilized by the City in the near future and some of this spare fiber is currently being leased to Bayhealth Medical Center, Windstream, and the State of Delaware through the Electric Department. The original leasing policy was created and approved by City Council on January 14, 2008.

Dark fiber leasing is a common practice among Public Power Utilities as a method to enhance utilization of fiber assets, provide customers an affordable high-speed communication path, and generate additional revenue to offset operation expenses. Dark fiber leasing is a practice where the utility provides a fiber path between two (2) points and the customer installs the electronic communication equipment which provides the communication path.

Based on the abundant request for fiber optic installations in FY13, staff felt that the City's rates may need to be adjusted. The requests that were approved for new fiber installations accounted for about 42% of the new service budget. Staff investigated the City's cost compared to other local fiber optic providers and found that the City's rates were much lower than those of other local providers. It was found that the going rate for private fiber suppliers was $65 to $125 per mile/pair/month. Converting the City's rate to the same rate structure would be equivalent to $10.08 per mile/pair/month. Staff recommended that the rate be adjusted to $.005 per strand/foot/month. This would be equivalent to $52.80 per mile/pair/month.

Mr. Koenig advised members that this was a relatively small revenue stream in the electric utility, which is part of Miscellaneous Revenues and represents less than $50,000 per year in total revenue; however, the adjustment was recommended to achieve a level that was comparable to local providers since current rates were substantially lower than the market.

Staff recommended that the Dark Fiber Leasing Standard Operating Policy be revised as submitted.

Responding to Mr. Hutchison, Mr. Koenig stated his belief that the current lease agreement included several different increments including five (5) year and ten (10) year options and staff would investigate when price increases could be implemented.

Mr. Blakeman moved to recommend approval of the revisions to the Dark Fiber Leasing Standard Operating Policy, seconded by Mr. Snaman and unanimously carried.

TEA/NAES Report *(February)*

Mr. Scott Koenig, City Manager, reviewed the TEA/NAES Monthly Reports for December 2012 and January 2013, and reminded members that staff reviews this report with TEA on a monthly basis. The report is provided to allow for the monitoring of electric sales and revenues received, which provides a better understanding of any fluctuations that occur and allows the opportunity to make improvements if deemed necessary.

Mr. Koenig stated that the Executive Summary on Page 1 of the report stated Dover's budgeted cost for all power supply (capacity and energy) for the month of February as $92.87/MWh and actual cost of all power supply (capacity and energy) as $85.59/MWh. He noted that this was the reason that there was a proposal in the FY 2014 budget to adjust the electric rates. Mr. Koenig explained that over the last two (2) budget years, power supply costs had come in under the amount budgeted in the long-term forecast and the City was able to rebate that money to customers through lower rates. He advised members that forecasting and rate modeling had been performed for the next three (3) years and it was believed that the rates that were proposed for FY 2014 could be held; however, the City had seen some dramatic drops in prices. He noted that Mrs. Mitchell had indicated that with the new proposed rates the City would be back to FY 2007 electric rates, which was good for industry and residential customers.

Mr. Blakeman noted that the budgeted unhedged energy cost reflected on Page 2 of the report was considerably higher than the actual unhedged costs for power (approximately 50%-60% higher) and questioned the reason for this large discrepancy.

Responding, Mr. Koenig stated that the unhedged portion was still benefitting from extremely low natural gas rates. He explained that the City's strategy had been to pull back its hedges from as high as the 90% range to approximately 80%; therefore, 20% of power was being bought in the market and risk was attached to that market. He indicated that although prices were currently very low, the summer was approaching and prices tend to fluctuate during this period. He stated that if purchases were unhedged and made in the spot market, very low numbers would be seen; however, risk would be very high. He noted that the City's purchases are made approximately three (3) years out.

Mrs. Mitchell, Controller/Treasurer, stated that she wished to ensure that there was no error in the report; however, noted that the real-time market is much lower. She explained that the budget is based on the forecast rather than the hedges that are made. Subsequently, Mrs. Mitchell advised members that she had reviewed the monthly budget report that she submits to Council and determined that the energy portion of the PJM charges were only 39% spent versus the amount budgeted; therefore, she felt that the budgeted figure was high because it was prepared by PACE Global the year before last when the decline in natural gas prices was not anticipated.

Quarterly Review of Utility Related Capital Investment Plan (CIP) Electric and Water/Wastewater (January, February, and March)

Mr. Scott Koenig, City Manager, referred members to General Fund - Major CIP Projects Report dated March 31, 2013, noting that a number of projects had changed substantially since March. The library project was listed as 82.1% spent; however, he stated that only a few punch list items remained, including the building dashboard, and approximately $100,000 was being held as part of the retainage. He stated that the project was nearly complete and it was hoped that it would be closed out by June 30, 2013.

Mr. Koenig informed members that Street Program work was getting ready to begin and a number of related projects would be removed when this Program starts. The Piney Point Well was under construction and he indicated that this was a design/build project to expand the City's water supply to meet the projected needs of the utility which was authorized by Council at just under $1M through a budget revision. The NRG Sanitary Sewer Upgrade was an ongoing project that had involved several change orders. Mr. Koenig noted that a line had failed resulting in significant inflow and infiltration (I & I) into the sanitary sewer system and staff was completing the administration portions of that to allow for reimbursement through impact fees through the County for the reduction and elimination of I & I. Other I & I projects through downtown Dover and Fox Hall were now complete and benefits through the billing system were anticipated.

Mr. Koenig stated that the Frazier Substation upgrade had been completed. Much of the work was performed in-house and the project came in quite a bit below the original price. The funds saved were expended for new development requests related to fiber and transformers; however, a majority of these funds would be reimbursed.

Mr. Blakeman stated that the lighting at Dover High School on the highway looked "great," noting that cable on the north side of the street had been installed and the poles were topped off. He inquired if telephone cable would be buried as well as this would improve the appearance in front of the school. Responding, Mr. Koenig stated his understanding that there would be a full relocation of overhead wire and that the poles may be removed; however, he stated that he would check on this to see if this was part of the associated cost.

Mr. Blakeman noted that the turbine-level window modifications were removed from the CIP and questioned if the insurance company had "backed off" on their requirement to put protection in this area. Responding, Mr. Koenig stated that after a number of discussions and study, the insurance company stepped back from that original recommendation.

Responding to Mr. Perza regarding the status of the Tar Ditch Interceptor Project from 2010, Mr. Koenig stated that it was staff's desire to return to the residents on Kerbin Street within 30-60 days to reinitiate the project. He indicated that staff had concerns regarding the overflow of the sanitary sewer in that area, noting that although this was not the cause of the problem, it was felt that re-laying the sewer would help.

UPDATES

Calpine Energy Center and Garrison Oak Technical Park Project

Mr. Scott Koenig, City Manager, advised members that staff was in the process of finishing final site plan approvals for the Calpine Energy Center. Calpine was making modifications to utilities and addressing various agency comments while working under a limited authorization to do site and pre-foundation work. He stated that the City was completing the design of the Garrison Oak Technical Park related to the subdivision as well as related utility layouts. Mr. Koenig reminded members that the City had a general contract with Becker Morgan Group for the subdivision and site planning related to the roads, storm sewer, some of the gravity sewer and water main; a separate engineering contract with URS related to a water tower; and a third engineering contract with Pennoni Associates for the wastewater pumping station and force main that will transmit wastewater from the Garrison Park project to White Oak #5 (west of Route 1). He indicated that all of these projects were underway and the water tower project was out to bid as a design-build contract. The engineering on the wastewater pumping station was approximately 85-95% complete and expected to be bid out shortly. Mr. Koenig stated that the Garrison Oak Technical Park plans were nearing completion and a bid package was expected to be prepared in the coming months. Calpine was continuing to hold a weekly conference call with staff to work out the completion of site plans and other issues associated with getting power from the energy block to the Cartanza 230KV tie station, and alignments and easements were being worked on by the City of Dover and Calpine. A meeting had been held with Eastern Shore Natural Gas regarding the extension of the pipeline from the Cheswold area to the Garrison Farm. In addition, a meeting had been scheduled between Calpine and the residents of Wild Meadows for June 13, 2013 to provide residents a project overview, including participation by Kvaerner, the Engineering, Procurement, and Construction contractor, and a presentation from Eastern Shore Natural Gas regarding the proposed pipeline from Cheswold to the Garrison Farm, which would be adjacent to Wild Meadows. Mr. Koenig stated that staff had been adamant with Eastern Shore Natural Gas and Calpine that neighbors would be kept abreast of development and that Calpine had reached out substantially to Wild Meadows.

Dover Sun Park

Mr. Scott Koenig, City Manager, referred members to the FY13 White Oak Solar Park Incremental Cost Report, noting that the original budget indicated that total power supply costs for the current fiscal year were expected to be $1,766,100 with an incremental cost of the Dover Sun Park of slightly over $500,000. He noted that year-to-date through April, the City had spent approximately $1.44M, but the incremental cost to the rate payers to meet the energy niche of renewables (approximately 3%) was only approximately $151,000. He recalled that slightly more energy was coming from the solar field than originally expected, but the City had been able to manage the cost.

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

Meeting adjourned at 5:53 p.m.

Adam M. Perza
Acting Chairman

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