UTILITY COMMITTEE

The Utility Committee Meeting was held on February 13, 2012 at 5:00 p.m. with Chairman Bonar presiding. Members present were Mr. Lynn and Mr. Blakeman. Mrs. Williams and Mr. Snaman were absent. Members of Council present were Mr. Anderson, Mr. Hare (arrived at 5:20 p.m.), Mr. Hutchison, and Council President Leary (departed at 5:21 p.m.). Mayor Carey was also present.

AGENDA ADDITIONS/DELETIONS

By unanimous consent, the agenda was approved as presented.

Garrison Tract Infrastructure Financing

Mr. Scott Koenig, City Manager, read the following statement into the record:

> *"Calpine is a leading independent power producer of reliable electricity to a wide range of customers and communities. Founded in 1984, Calpine is capable of delivering approximately 28,000 megawatts of clean efficient power generation, in 20 U.S. states and Canada, with 91 operating power plants and two under construction. Calpine's fleet of natural gas-fired plants is among the youngest and cleanest in the country. The average plant age is about 12 years old, and the fleet emits fewer greenhouse gases per megawatt hour generated than any other independent power producer in the United States. Following its acquisition of Conectiv Energy in 2010, which added 19 new plants in the Eastern PJM region, Calpine's portfolio now has significant scale in three major power markets: Texas, California and the Mid-Atlantic. With a modern, diverse and flexible fleet of state-of-the-art plants, Calpine is poised to benefit from price and volume improvements in all three areas as the country's economic recovery strengthens.*
>
> *Calpine is proposing to construct a 309-megawatt, energy efficient, merchant power production facility (known as the Garrison Energy Center (GEC)) on a roughly 37-acre site located at the Garrison Oak Technical Park just east of Rt. 1 off of White Oak Road. Their site development application has been submitted to the City and their project will be considered by the City's Planning Commission in March 2012. The proposed site is industrially zoned although currently undeveloped. The City and Calpine are parties to an Option to Lease agreement which would permit Calpine to lease the land for a 30-year term with four (4) five-year options. Calpine has now received the results of the PJM System Impact Study. The results of the study have identified various electrical infrastructure upgrades that will be required to inject the power into the PJM grid. The necessary upgrades to the power transmission system in the Pennsylvania area may also require an additional investment on Calpine's behalf. Pending approval by their board of directors and favorable market conditions, Calpine expects to be in a position to obtain building permits and start site construction to allow for a June 2015 commercial operation date. Both DEDO (Delaware Economic Development Office) and DNREC (Department of Natural Resources and Environmental Control) are supportive of the project based on the REMI* [Regional Economic Models, Inc.] *study which concluded that the GEC will provide a significant Gross Domestic Product (GDP) increase, jobs creation, and lower wholesale energy costs for Delawareans.*

Specifically, the REMI study indicates the proposed project will create 200-250 (peak) construction jobs and a GDP increase of $25 million during construction of the facility. 15 direct jobs and 67 indirect jobs and a GDP increase of $126 million during operations of the facility will also be achieved. 121 indirect jobs and a GDP increase of $96 million will be brought about by the lower wholesale energy prices Delaware will realize once the GEC is added to the regional power generation mix. According to the analysis done by an independent energy consulting firm, during the first six (6) years of operation, the GEC will:

1) *Decrease Delaware wholesale energy costs by at least $95 million.*

2) *Reduce residential customer bills by up to $1-1.25/month provided transmission and distribution charges are held constant.*

The infrastructure build-out at the Garrison Oak Technical Park will enable Delaware and the City of Dover to draw other industrial tenants, thus further expanding economic and job opportunity beyond this specific project.

Based upon the projected utility demands and property improvements, the expected revenues associated with the project have been estimated as follows:

City Water Revenue	*$1.6 million per year*
City Sewer Revenue	*$258,600 per year*
Land Lease Income	*$28,000 per year plus an annual escalator*
Property Taxes	*$150,000 (City & County Combined)*
Back Up Electric Power	*$250,000*
TOTAL:	*$2,286,600*

As we previously indicated, the City of Dover has encouraged Calpine to apply for a Delaware New Jobs Infrastructure Fund grant, which the City agreed to sign on as its public sponsor. During Calpine's discussions with the State of Delaware, representatives from State government indicated that the City of Dover must have "skin in the game" for this project to come to fruition. There are several infrastructure investments outside of the site plan boundaries that Calpine has requested third-party funding for. These investments include approximately 6 miles of a new large diameter natural gas pipeline, as well as water, sanitary sewer, storm sewer, and road improvements for a portion of the Garrison Oak Technical Park. The estimated cost of these infrastructure investments is $12 million.

My purpose for coming before the Utility Committee tonight is to request your support for funding of these infrastructure improvements up to a target amount of $6 million dollars. The City intends to work with the State of Delaware and other entities to fund the balance of the infrastructure investments. In addition, we hope to reduce the economic outlay from the City of Dover as more detailed estimates are

forged. The GEC provides a unique opportunity to lower wholesale energy costs on the supply side of the energy equation since this is an energy efficient unit. This efficiency will increase the operating value of this asset. Thank You."

Responding to Mr. Blakeman, Mr. Koenig indicated that the $6M would pay for infrastructure which is associated with the extension of a gas lateral from north of Cheswold to the Garrison Farm and GEC, as well as extending water, sewer, and road infrastructure on the Garrison property. He noted that a total of $12M of off-site infrastructure improvements is associated with water, sewer, road, and gas line construction specifically being requested and it is hoped that the remaining $6M will be obtained from the State of Delaware through grant monies.

Mr. Koenig explained that the request is to offer a commitment of $6M. If this is approved by City Council, staff will distribute a letter to Calpine, which would be included in a package that Calpine is assembling for their Board and used in negotiations with the PJM grid. He stated that the commitment letter is the next step for the City and would not commit the City to pay $6M if the project does not move forward.

In response to Mr. Blakeman, Mr. Koenig stated that the City may not actually provide $6M to Calpine; however, the City of Dover may contract for the $6M to build the infrastructure. The $6M investment would occur only if Calpine pulls a building permit and begins construction of the project. Mr. Koenig explained his understanding that the City of Dover would own all of the infrastructure constructed using the $12M, including the gas pipelines, water, sewer, and roads.

Mr. Bonar clarified that the request is for the City to provide an authorization to commit up to $6M in contributions toward the project and that payment of the funds would not be guaranteed if the project does not move forward. Concurring, Mr. Koenig indicated that if the project does not move forward, the City would not be obligated to build any of the infrastructure.

Responding to Mr. Anderson, Mr. Koenig confirmed that the perceived lack of infrastructure has been delaying the development of the Garrison Tract. He advised members that preliminary designs for infrastructure have been prepared for a field located on the Garrison Tract; however, there are no roads or water for a majority of the park. The water system was expanded from the Wild Meadows Subdivision to the location of the LS Power facility in preparation of the Garrison Center. Mr. Koenig noted that a lot could not be offered for sale there since there is no infrastructure for a finished lot. He confirmed that the Calpine project could potentially provide opportunity for other projects for the Garrison Farm and the proposed infrastructure would open 65% of the project for development once completed.

Mr. Anderson questioned if fees would be involved for the gas that passes through the gas lines. Responding, Mr. Koenig stated that there have not been formal discussions with Eastern Shore Natural Gas or Chesapeake Utilities in this regard; however, it is possible the City of Dover could potentially own the gas lines and then establish an agreement for operation and maintenance with either Eastern Shore Natural Gas or Chesapeake Utilities. The City could potentially receive revenue in the future, as additional gas is delivered or additional taps are made off the line.

Mr. Lynn relayed concerns regarding the Calpine project in general and questioned if there have been any conversations with any representatives of Wild Meadows regarding their feelings about such a

project being in close proximity. Mr. Koenig stated that it has been his experience that the residents of Wild Meadows have been very vocal in the past regarding any potential problems and that to date, he was not aware of any concerns. He was aware that a "field trip" has been planned in the near future to visit another facility similar to the proposed project.

Mr. Lynn advised members that, as he requested, Calpine has reached out to the residents of the Wild Meadows Subdivision to make sure they are kept abreast of all developments. It was his opinion that Calpine has shown exemplary corporate citizenship in this regard. His concern was that the residents of Wild Meadows have not rendered their opinions regarding their support of this project. His fear was that the residents would be opposed to the construction of a plant directly behind them and, as a result, he spoke to the City's Economic Development Director, Mr. Bill Neaton, to determine the possibility of moving the Calpine site to another location on the Garrison Tract (further from Wild Meadows). Responding, Mr. Koenig stated that this project has been in discussion for approximately two (2) years and feared that it may be too late to consider moving the location, particularly since the location has been discussed with DNREC as well as the State Planning Office. He also noted that the site plan application has been filed with the City.

Mr. Blakeman moved to recommend the endorsement of up to $6M of in-kind contributions for the infrastructure financing for the Garrison Tract, seconded by Mr. Bonar and carried, with Mr. Lynn voting no.

Review of Utility Related Capital Investment Plan (CIP) ***(Electric and Water/Wastewater)***
Members were provided a Project Tracking Report, as of December 31, 2011, for the Utility (Electric and Water/Wastewater) Related Capital Investment Plan (CIP).

Responding to Mr. Bonar, Mr. Scott Koenig, City Manager, indicated that the paving of Hazel Road should be completed in March 2012. He reminded members that a water line replacement was completed on Hazel Road and that the last street program issued included Hazel Road; therefore, curb and sidewalk repairs should be occurring. He stated that once asphalt plants open again in the Spring, the street will be paved and completed.

In response to Mr. Anderson regarding the Inflow/Infiltration project, Mr. Koenig stated that although he did not have the outlay of the scale (prioritization of areas), he assured members that staff has been working diligently to maintain the schedule. He noted that the reports provided were from December and that actual construction progress may be further than what was indicated in the report.

In response to Mr. Blakeman regarding the repairs on Unit #3, Mr. Koenig indicated that both preventative and long-term maintenance were being conducted on Unit #3 at the same time.

Mr. Blakeman moved to recommend acceptance of the Utility Related CIP Report as presented, seconded by Mr. Lynn and unanimously carried.

30-Day Update - Garrison Oak Technical Park Project

Mr. Bonar referred to the first agenda item discussed by members (Garrison Tract Infrastructure Financing) and noted that it would serve as the 30-day update.

By unanimous consent, the meeting adjourned at 5:27 P.M.

David L. Bonar
Chairman

DLB/TM/jg/js/dd
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