UTILITY COMMITTEE

The Utility Committee Meeting was held on September 26, 2011 at 5:00 p.m. with Chairman Bonar presiding. Members present were Mr. Lynn, Mrs. Williams, Mr. Blakeman, and Mr. Snaman. Other members of Council present were Council President Leary (arrived at 5:15 p.m.), Mr. Hutchison, and Mr. Hare. Mayor Carey was also present.

AGENDA ADDITIONS/DELETIONS

By unanimous consent, the agenda was approved as presented.

Discussion - Informational Presentation by Delaware Electric Cooperative (Referred Back to Committee by Council on September 12, 2011)

During the Legislative, Finance, and Administration Committee meeting of August 22, 2011, staff presented a response to the Delaware Electric Cooperative (DEC) presentation of June 27, 2011. The Committee recommended that the City proceed with a Request for Proposals (RFP) for an independent study to be conducted by an entity that is not currently or planned to be associated with the City of Dover, the DEC, or any other local electric company, to determine the feasibility of the City remaining in the electric business, the possibility of getting out of the electric business, and the anticipated ramifications of either approach. During their Regular Meeting of September 12, 2011, City Council considered the Committee's recommendation and referred further this matter back to the Utility Committee for discussion of the sale of the electric department and the issuance of an RFP for an independent study regarding the possible sale and disposition of the utility, including a Cost of Service Study.

Mr. Blakeman felt that there was a need to obtain information, including the cost of replacement for generation and the life expectancy of current generation, that would allow the City to make a reasonable decision, and that a rate study would also be helpful. In addition, he stated that there should be a general review of the City's position in the Pennsylvania, Jersey, Maryland Interconnection (PJM) and how this impacts the City's ability to purchase power and meet capacity requirements by purchase of capacity, ownership of capacity, and/or generation to sell.

Mr. Hare requested assurance that, if is determined that the City should continue in the electric business, the study would determine if there are inefficiencies.

In response to Mr. Hutchison, Mr. Blakeman recalled that in 1992 a cost of generation and necessity of generation study was conducted. He stated that the City's contract with Duke Energy (1996) was the result of an offer made by Delmarva Power and Light (DP&L) to purchase the City Electric Department (including generation, customers, etc.).

With regard to an Integrated Resource Plan (IRP), Mr. Ron Lunt, Public Utilities Director, advised members that PACE Global Energy Services previously completed five (5) year plans and that The Energy Authority (TEA) is ready to conduct a more elaborate and detailed five (5) year plan as a part of their contract. Staff has also discussed an IRP with TEA, which would be over and above their contract. He anticipated that staff will be submitting a request to City Council later in the year for a 20-year IRP.

Responding to Mrs. Williams, Mr. Lunt stated that the cost of an IRP would be approximately $300,000 and require an extended period of time to complete.

Mrs. Donna Mitchell, Controller/Treasurer, stated that she reviewed the July 5, 2011 letter from the DEC, including the illustrative example provided of paying $120M and the valuation methods utilized. She advised members that she applied the City's numbers to the valuation methods used and relayed concern that the DEC numbers appeared extremely understated. Referring to the Net Valuation Method included in the DEC Consultant's Report, she stated that the City's amount would equate to $188M versus $120M, the number of customers method would equate to $162.7M versus $120M, and the revenue valuation method would equate to $196.5M versus $120M. Mrs. Mitchell questioned if the City should pursue this matter further without a serious offer and explained that, although conducting such a study would provide the City with details, it might not be worth the expense and time if no action is taken by City Council. She noted that performing such a study would be a very time consuming process, not only for the company selected to conduct the study, but also for staff. Should the City move forward, she stated that she has concerns with the methodology and whether the City would receive the best price for its assets. Mrs. Mitchell advised members that, when reviewing the $120M listed in the DEC example, they should be aware that the City currently has $35.4M in bonds and $29.4M in retirement liabilities that must be paid; therefore, she requested that members take into consideration all of the economic factors when deciding whether the City should move forward with this process.

Mr. Hare felt that the City was not presented with DEC's best offer; however, without a study, he did not feel that the City could respond with a counteroffer. Responding, Mrs. Mitchell suggested that the City present DEC with the City's preliminary numbers and determine if DEC still has a desire to purchase the City's utility.

For clarification, Mr. Bonar explained that the DEC's presentation was provided for informational purposes only as a starting point of discussion and should not be considered as an offer by DEC. He stated that DEC or another entity may make an offer. If the City brought forward a study that showed the Electric Department operations were worth between $200M and $300M as a sale price through a purchase, this amount would more than offset the revenue derived from the electric utility in interest alone. In addition, he stated that the City could eliminate 25% of its payroll expenses (employees of the City's Electric Department) through the sale of the utility. Mr. Bonar explained that these were issues that must be considered by Council and that members should not make a judgement without a professional review, which has never been completed in the history of the City's ownership of the electric operation.

Mr. Bonar stated that consideration of this matter must consist of a step-by-step process that involves evaluation of every aspect, not just the $7M-$8M received through the electric utility, but whether this income can be offset by interest, whether electric costs for City residents and businesses can be reduced, if the City can reduce payroll, and if the City's utility remains a viable and reliable portion of the local economy.

Mr. Hare reminded members that DEC offered to pay for half the cost of a study if the City were to make their offer public.

Mrs. Williams moved to recommend approval of a Request for Proposals for a Cost of Service Study to determine the valuation of the entire City of Dover electric system and all appendices to include generation, distribution, personnel costs, etc. The motion was seconded by Mr. Snaman and carried with Mr. Lynn voting no.

Cost of Service Study to be Performed on the Electric Utility and the Possibility of Allowing Some Rate Classes to Shop for Services
See the discussion and action on the above item.

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

Responding to Mr. Blakeman regarding the Unit #3 turbine inspection, Mr. Ron Lunt, Public Utilities Director, stated that a borescope is utilized to conduct the inspection.

TEA/NAES Monthly Report ***(July)***
The TEA/NAES Monthly Report for July 2011 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.

By unanimous consent, the TEA/NAES Monthly Report for July was accepted as presented.

Mrs. Williams requested that staff provide all Committee members with copies of a report entitled "Dover Energy 2030 - Frequently Asked Questions."

Mr. Bonar relayed appreciation for staff's invitation to attend the recent planning meeting at the Electric Plant, which he stated was very helpful and informative. He expressed his gratitude for the hard work performed by staff and acknowledged that this was a difficult time for the Electric Division staff as well as for City Council.

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

David L. Bonar
Chairman

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