UTILITY COMMITTEE

The Utility Committee Meeting was held on September 12, 2011 at 5:02 p.m. with Chairman Bonar presiding. Members present were Mr. Lynn (arrived at 5:08 p.m.), Mrs. Williams, Mr. Blakeman, and Mr. Snaman. Other members of Council present were Council President Leary (arrived at 5:12 p.m.), Mr. Hutchison (arrived at 5:03 p.m.), and Mr. Hare. Mayor Carey and City Solicitor Rodriguez (arrived at 5:22 p.m.) were also present.

AGENDA ADDITIONS/DELETIONS

By unanimous consent, the agenda was approved as presented.

Presentation - Power Plant Revenues

Mrs. Donna Mitchell, Controller/Treasurer, noted that members were provided information during the budget hearings regarding Power Plant revenues. She stated that she felt that it would be beneficial for members to discuss the revenue that is earned by the Power Plant.

Mr. Ron Lunt, Public Utilities Director, reviewed the Electric General Assets - Net Revenues and the Electric Revenue budget. He also provided and reviewed the City of Dover Summer Generation Report ***(Attachment #1)*** and explained the factors that comprise the Pennsylvania, Jersey, Maryland Interconnection, LLC (PJM) revenue. Mr. Lunt noted that, in total operations, $7.3M capacity credits are received through the Reliability Pricing Model (RPM) auction. He stated that this is the payment received on a monthly basis for availability, regardless of operating time. He explained that figures were included for net generation (profit when the generation runs) as well as payment received for having the plants available to generate power.

Responding to Mr. Blakeman, Mr. Lunt indicated that the plant is run as scheduled by PJM and confirmed that every KW generated goes to PJM. He noted that the capacity bill, in the amount of $8.5M, is listed as an expense and a capacity credit in the amount of $7.3M results in the bill exceeding the credit. Mr. Lunt explained that PJM is paid a capacity charge for the shortfall. He explained that there are 175 megawatts of available capacity and the City's obligation is approximately 200 megawatts; therefore, the City receives a credit for 175 megawatts and is billed for 200 megawatts, resulting in a net payment for 25 megawatts, at a cost in excess of $1M. He stated that the capacity consists of system load plus reserves and that the load percentage is approximately 15% to 16%.

In response to Mr. Bonar, Mr. Lunt indicated that Units 1 and 2 were built in 1962 and significant deterioration has been found in the buckets, which are part of the steam intake into the turbine. The only means to make repairs would be to remove the covers, which would cost a minimum of $500,000. He stated that the condition of the generators is unknown and The Energy Authority (TEA) and North American Energy Services (NAES) have been requested to determine the true longevity of these units. Mr. Lunt stated his concerns about the safe operation of Units 1 and 2 and felt that the City would be fortunate if these units continue to function for an additional five (5) years. He suggested attempting to replace Unit 1 and Unit 2 capacity at a different level through Power Purchase Agreement (PPA) and planning for their elimination. Mr. Lunt explained the current difficulty of bidding these units into the auction and noted that if they experienced a catastrophic failure, it would be necessary for the City to buy replacement capacity on the open market.

Mr. Hutchison questioned the cost of replacing capacity for Units 1 and 2. Responding, Mr. Lunt estimated a cost of $42,000 a megawatt year (34 megawatts x $42,000). If bid into the auction and the units were destroyed and could not operate, the City would be required to buy replacement capacity, which would be at the spot market value (whatever the market will bear). With regard to buying generation versus rebuilding, Mr. Lunt stated that from a portfolio management standpoint, the City would benefit from diversifying its portfolio, which would require buying other generator assets. Mr. Hutchison requested further review of this issue.

At the request of Mrs. Williams, Mr. Lunt stated that if the City were to get "out of the generation business," there would be an immediate requirement to pay $8.5M without any offset and noted that, based on the net revenues from the electric generation assets, the City is currently making money. In addition, he stated that the City would lose control of pricing and would also lose the profit which is being created by the plants every year. He assured members that the plants are providing a very strong, financially feasible electric operation.

Mrs. Williams indicated that citizens have conveyed to her their appreciation for the dependable electric service provided by the City of Dover. Mr. Lunt relayed appreciation to the Utility Committee and City Council for their support in building a first-rate infrastructure and noted that the City's outage rate is extremely low.

By unanimous consent, the meeting adjourned at 5:26 P.M.

David L. Bonar
Chairman

DLB/DD/jg/js/tm
S:\AGENDAS & MINUTES\Committee-Minutes\2011\09-12-2011 UTILITY.wpd

Attachment to Original and File Copy
Attachment #1 - Summer Generation Report

City of Dover Summer Generation Report

The following table outlines the generation operation for the summer period. It is noteworthy that the production margin does not include any variable expenses, such as chemicals, water, or other similar expenses.

Month	Unit 1 – Hours of operation	Unit 2 – Hours of operation	Unit 3 – Hours of operation	Unit 11 – Hours of operation	MWh Produced	Production Margin * (after fuel costs)
May	0	0	13.7	9.6	1,218	$71,000
June	29.9	30.7	55.6	7.2	4,115	$563,000
July	59.2	57.2	201.1	34.9	17,096	$1,597,829
August						
September						
Summer subtotal	89.1	87.9	270.4	51.7	22,429	$2,231,829

* Monthly PJM revenue is comprised of three factors: Black Start Credit of $6,111.93/month or $73,343/Yr., Reactive Supply Credit of $29,467.58/month or $353,610/Yr., and Generation Credit for run time as applicable. This equates to a known annual income from PJM of $426,953 for ancillary services plus $7,388,283 for Capacity Credits ($7,815,236 annual) regardless of run time.

Noteworthy – All four units have successfully achieved the PJM capacity tests for the summer demonstration period.