UTILITY COMMITTEE

The Utility Committee Meeting was held on August 22, 2011 at 5:01 p.m. with Chairman Bonar presiding. Members present were Mrs. Williams (arrived at 5:10 p.m., departed at 5:15 p.m., and returned at 5:29 p.m.), Mr. Blakeman, and Mr. Snaman. Mr. Lynn was absent. Other members of Council present were Council President Leary and Dr. McGlumphy (arrived at 5:09 p.m.). Mayor Carey was also present.

AGENDA ADDITIONS/DELETIONS

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

Discussion - Informational Presentation by Delaware Electric Cooperative

During their meeting of June 27, 2011, members were provided an informational presentation by Delaware Electric Cooperative (DEC) on the Pros and Cons of DEC Purchasing the City of Dover Electric System.

Mr. Scott Koenig, Interim City Manager, presented a response to the DEC presentation explaining why Dover residents should continue to own the electric system.

In response to Dr. McGlumphy, Mr. Koenig explained that it was his understanding that DEC indicated in their presentation that the City's rates could be reduced by approximately 25% if the utility were sold, based on the 2010 electric rates. He advised members that, since 2010, there have been two (2) power cost adjustments; therefore, he felt that the savings realized would be less than 25%. As to the benefits to the citizens of maintaining City ownership of the electric system, Mr. Koenig stated that this would allow the City to better control its future, since the City would have the ability to manage and plan the system through local officials and local talent and recover costs through the transfer of profits to the General Fund to help reduce the City's property tax base. He noted that the City has an obligation to maintain competitive rates.

Council President Leary reminded members that the City's electric utility is an asset that allows the City to keep property taxes low, which was its initial purpose and continues today.

Responding to Mr. Bonar, Mr. Koenig confirmed that one (1) cent of property taxes equates to approximately $300,000. He noted that approximately $7M to $8M per year is transferred from the Electric Fund to balance the City's budget and that it would be necessary to increase property taxes by approximately 25 cents to cover this cost if the utility were sold. Mr. Koenig stated this does not include income that would be generated by investing funds received from the sale. In regard to businesses, he advised members that it was his understanding that the City's larger industrial customers are concerned with the 25% gap that DEC mentioned, since it affects their ability to compete in the industry. Mr. Koenig questioned if any of the losses or "contractions" of local businesses are directly attributable to the electric rate versus the decline in the economy. It was his feeling that during this difficult economic market, business losses occur for a variety of reasons.

Ms. Judy Diogo, President, Central Delaware Chamber of Commerce (CDCC), stated that the CDCC membership has indicated a desire for City Council to conduct a feasibility study to determine if it would be advantageous for the City to sell its electric system. She advised members that their current concerns are with the cost of conducting business and, since there has been an indication that there are potential savings, the membership would like for the issue to be investigated as thoroughly as possible.

Mr. Bonar felt that in order for the Committee and City Council to make such a decision, a thorough, independent, and unbiased review would be necessary and that such a review should include what the utility means to the City, what is happening in this regard throughout the country and region, the effect of new Environmental Protection Agency (EPA) rules, etc. He estimated that such a study would cost approximately $30,000 and noted that these funds are available in the Reserve Fund. Should the City be required to increase property taxes to offset monies lost from the Electric Fund, Mr. Bonar suggested that the increase could be offset by the income tax deduction permitted for property taxes. Until all information is obtained, he did not feel that a decision could be made and suggested that the Committee recommend that City Council approve further review of this matter.

Mr. Snaman relayed concern with the figures quoted by DEC, stating that DEC did not have complete information regarding the cost of the City's electricity, including the cost of assuming the City's gas purchase contracts.

Mrs. Williams reminded members that DEC provides only distribution and not generation. As a resident, she stated her appreciation for the current quick response time provided by the City, which would be lengthened if the utility was purchased by DEC. She also indicated a concern that the City's ability to obtain "the best deal" would be compromised by not being an owner, explaining that, currently, there are companies who are willing to come to the City of Dover and build a plant at no cost to the City because the City owns an electric company and service and has land available. Mrs. Williams felt that being independent and self-sufficient in electricity is of primary importance and that if Philadelphia Electric Company (PECO) went down, it would not result in a blackout for the City, since the City currently has the ability to generate its own electricity.

Responding to Mrs. Williams, Mr. Ron Lunt, Public Utilities Director, confirmed that the City would be totally electrically self-sufficient in an emergency. He stated that the City's current capacity is approximately 175 megawatts and that the peak for the City this past summer was 160 megawatts. Mr. Lunt advised members that, due to the age of the system, it would take apprxoimately eight (8) to ten (10) hours for the City to become totally self-sufficient in covering its entire service area; however, a portion of the load could be carried within half an hour with the 40 megawatt unit. This power would be dedicated to critical assets such as the hospital, certain water facilities, etc.

In response to Mr. Bonar, Mr. Lunt stated that the two (2) 17 megawatt units were built in the early 1960s, the 100 megawatt unit was built in early 1970s, and the cost of replacing them would amount to hundreds of millions of dollars. He estimated that the two (2) 17 megawatt units are nearing the end of their life cycle, which he estimated would extend for approximately five (5) years.

Mr. Blakeman moved to recommend 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 Delaware Electric Cooperative (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. The motion was seconded by Mrs. Williams and unanimously carried.

Discussion - Infrastructure Improvements to the Garrison Tract

Members were advised that on August 3, 2011, senior City staff met with representatives of the Calpine Corporation to discuss the potential construction of a new power generation facility to be located on the Garrison Oak Tract and provided members with a summary status of the proposed project.

Mr. Scott Koenig, Interim City Manager, reviewed the outline provided by Calpine Corporation regarding the infrastructure update on the Garrison Energy Center development project (GEC), as follows:

1. GEC is anticipated to be a nominal 618 MW power generation facility which is planned to be built in two (2) phases (each nominally rated at 309 MW). Targeted commercial operation date for the first phase is June 1, 2015;

2. Updated permitting for GEC is underway as the project is being enhanced to employ a more energy efficient technology;

3. Calpine is presently in negotiations with Eastern Shore Natural Gas to bring natural gas to GEC and the Garrison Oak Technology Park via a new gas pipeline – presently anticipated to be a six (6) mile 16" lateral pipeline;

4. GEC's electric interconnection process with PJM has been delayed by over three (3) months. Calpine expects to receive GEC's System Impact Study from PJM by the end of September 5, 2011; and

5. Calpine is working with Becker Morgan to integrate GEC's infrastructure requirements with those of the Garrison Oak Technology Park.

Responding to Mr. Blakemen's inquiry regarding Item# 2 - Updated Permitting, Mr. Ron Lunt, Public Utilities Director, stated that this reference is in regards to GEC's plans to upgrade the generator from 150 to 300+ megawatts.

No further action was taken by the Committee.

Review of Utility Related Capital Investment Plan (CIP) ***(Electric and Water/Wastewater)***
Members were provided a "Preliminary" Project Tracking Report, as of June 30, 2011, for the Utility (Electric and Water/Wastewater) Related Capital Investment Plan (CIP).

Referring to the Fox Hall Pump Station and Heatherfield Force Main Rerouting Projects, Mr. Ron Lunt, Public Utilities Director, stated that these projects are no longer "out to bid" but have been awarded to Teal Construction and that construction is anticipated to begin in September 2011. In addition, he noted that the SCADA Technology Equipment Upgrade Project has been completed.

Mr. Lunt advised members that the Water Quality Improvement Projects that were scheduled for this upcoming year will be east of North State Street (Phase 2) and that staff has re-prioritized some projects, explaining that water and sewer line work will be performed in the area of Wesley College due to their Streetscape Project. In addition, due to the receipt of grant monies for paving New Street, staff plans to review the water infrastructure in this area.

PACE/NAES Monthly Report ***(May and June)***
The PACE/NAES Monthly Reports for May and June 2011 were 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. Snaman moved to recommend acceptance of the PACE/NAES Monthly Reports for May and June 2011, seconded by Mr. Blakeman and unanimously carried.

By unanimous consent, the meeting adjourned at 5:52 P.M.

Respectfully submitted,

David L. Bonar
Chairman

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