UTILITY COMMITTEE

The Utility Committee Meeting was held on March 28, 2011 at 5:00 p.m. with Chairman Ruane presiding. Members present were Mr. Bonar, Mr. McGiffin, Major Kosior and Mr. Snaman. Members of Council present were Council President Hogan (arrived at 5:27 p.m., departed at 5:29 p.m., and returned at 5:43 p.m.) Mr. Leary (arrived at 5:40 p.m.). Mayor Carey (arrived at 5:34 p.m.) was also present.

AGENDA ADDITIONS/DELETIONS

By unanimous consent, the agenda was approved, as presented.

Evaluation of Proposals - Energy Management Agreement

Mr. Anthony DePrima, City Manager, reminded members that on May 4, 2006, the City of Dover entered into an Energy Management Agreement with Pace Global Asset Management, LLC (PACE) to assist the City with its energy procurement, energy sales, purchase of fuels, establishment and management of risk policies, development and management of hedging protocols, provision of power plant oversight and bidding strategy, and related energy procurement processes. He noted that this agreement will expire on June 30, 2011.

Due to the extreme importance of this contract, Mr. DePrima stated that a staff team (including himself, Donna Mitchell, Controller/Treasurer; Ronald Lunt, Public Utilities Director; and due to the confidentially of the various proposals, Mr. Kirk Betts, Counsel from Betts and Holt LLP) was organized to solicit proposals from potential bidders. He stated that the team issued a Request for Qualifications to sixteen (16) firms and that seven (7) responses were received. After evaluating the responses received, the team selected three (3) finalists and a Request for Proposal (RFP) was sent to these parties. He noted that, as a part of the RFP request, the current Energy Management Agreement was included in the package to be used as a basis for the new agreement. Mr. DePrima advised members that on February 8th and 9th, interviews were conducted with the three (3) finalists. Subsequent to these interviews, he stated that a "best and final" offer was requested and due by February 28th so that the team could have ample time to develop a final recommendation. He stated that of the three (3) proposals that were submitted, one (1) was rejected as non-compliant and not considered for the final recommendation; however, the proposals submitted by PACE and The Energy Authority, Inc. (TEA) were comprehensive and fully complied with the RFP. A summary of the recommendation from the team was provided to members, which included details of the analysis.

Staff recommended that the City Manager be authorized to execute a five (5) year contract with an annual fee of $996,000, plus additional services as required, with The Energy Authority, Inc. (TEA) as per the terms of the RFP.

Mr. DePrima stated that TEA was less costly than PACE Global and will also bring a certain depth of services, as well as an association with other power companies that the City currently does not have.

In response to Mr. Snaman, Mr. Ron Lunt, Public Utilities Director, stated the importance of understanding the structure of TEA. He explained that TEA is a creation of public power utilities, rather than a vendor who provides services to members of the authority. Mr. Lunt indicated that

TEA members provide services to themselves; therefore, it is difficult to obtain references. He stated that TEA's largest utility customer is Orlando Utilities and that the presentation by TEA includes an outline of its owners.

Mr. McGiffin questioned if the City would become an owner if the City entered into a contract with TEA. Responding, Mr. Lunt stated that, at this point, the City would be taking services from the authority as a customer. TEA currently provides services to 38 customers who are not members. He stated that he has spoken with another customer of TEA, Franklin Public Utility District, who indicated their satisfaction.

Noting that TEA has offices located in Florida and on the West Coast, Mr. Snaman questioned if TEA has any offices in the Northeast and how long TEA has been in business. Responding, Mr. DePrima stated that TEA became incorporated in 1997; however, he noted that all companies in this business are new since these companies were created to address the deregulation of the wholesale power market. In regards to TEA's office locations, Mr. DePrima noted that there are provisions in the contract that require TEA to be in Dover on a monthly basis to meet with City staff.

Responding to Mr. McGiffin, Mr. DePrima stated that TEA is a Limited Liability Corporation (LLC) that has 14 members who are equitable owners (partners and members of the Board of Directors). He noted that there are 38 additional power companies who are customers of TEA and, as he understands, there is an option for a customer to become an equitable owner of the corporation, explaining that it is not a closed LLC.

Mr. Ruane referred to Exhibit #1 - Recommendation of Energy Manager and requested an explanation of the cost reduction provided by PACE that imposes several new conditions, one of which is a generation cumulative run-time limit of 100 unit run-hours/year (the sum total of all run-hours of all units, including for PJM testing - over 100 hours triggers an hourly fee). Mr. DePrima stated that in order to reduce their flat fee, PACE put a restriction on the run-time of the plant, explaining that once the plant runs over the 100 hours, there would be an additional fee for their services for running the plant. He confirmed that this was a factor in the development of the recommendation.

Responding to Mr. Bonar, Mr. Lunt stated that, last year, there were several days that the plant ran over 100 hours, noting that this past summer, there were 24 days that the plants ran over 100 hours. Mr. DePrima stated that if there was a year that the plants were not run at all, there would be approximately 100 hours of run-time for the required testing.

At the request of Mr. Ruane, Mr. DePrima explained that PACE provided two (2) proposals: one based on a base fee and another based on PACE sharing the revenue acquired from the Auction Revenue Rights (ARR), which is a transmission strategy to mitigate the cost of congestion. He confirmed that the recommendation was based on the base fee proposal rather than the ARR option, since specific amounts would be difficult to determine.

In response to Mr. Ruane, Mr. DePrima stated that TEA has more experience with trading in various energy markets and would bring a 24/7 experience to the City of Dover. Elaborating, Mr. Lunt explained that the value of a trading floor is that they are always working in the markets and are able to follow trends and flows of power marketing. TEA's floor consists of several traders, working on a 24-hour basis, who monitor power costs to discover opportunities to sell or buy power on a short-term basis. He stated that having their own trading floor allows TEA to better estimate, follow, monitor, and track where the power supply is and where the costs and possible revenues are as well. It was his belief that TEA's ability to continuously schedule and bid in the market may provide the City an opportunity that would not be available otherwise.

Mr. Ruane noted that a representative of PACE has been involved with the 2030 Committee and questioned the effect that a change in contract would have in this regard. Responding, Mr. DePrima assured members that, like PACE, TEA has committed to providing basic services to the 2030 Committee and, if there are more detailed negotiations or contracts over and above the basic services, they would be paid (as PACE is). Therefore, it was his feeling that, other than specific individuals being different and there being a learning curve required, there would be no changes. He advised members that the City will retain the services of PACE for the negotiations related to the LS Power Project in West Deptford, New Jersey.

In response to concerns of Mr. Ruane, Mr. DePrima stated that the North American Energy Services Corporation (NAES) is an independent company from PACE and that the contract with NAES is effective for an additional year. He confirmed that NAES will remain responsible for the plant operations at this time.

As mentioned by staff, Mr. Ruane reiterated that PACE provided the City of Dover with excellent service during the past several years.

Responding to Mr. Snaman, Mr. DePrima stated that TEA would be submitting a monthly report.

Mr. DePrima introduced Mr. Jamie Mahne, Member Services Manager for TEA, who will be working with the City, serving as a project manager for coordinating services.

Mr. Mahne reviewed a Presentation - *Overview of The Energy Authority* ***(Attachment #1)***. He relayed the importance of a true partnership and that TEA does a good job at not only maintaining customer satisfaction but also tracking customer satisfaction, which is part of TEA's annual process. He advised members that every employee of TEA is compensated based on the results of customer satisfaction surveys. He indicated that TEA's goal is to produce "extremely satisfied" results from customers. He stated the importance of value focused delivery, and requested that if the City values a service that TEA is not providing, that TEA be informed in order to make necessary changes.

Responding to Mr. McGiffin regarding the non-profit status of TEA, Mr. Mahne explained that there are two (2) IRS private letter rulings indicating that TEA is a 501(c)(3) organization and, as such, is tax-exempt and not permitted to provide services to "for profit" companies. *(City Clerk's Office Note: At the request of Mr. McGiffin, members were provided an explanation of TEA's non-profit status in an email dated March 30, 2011* ***(Attachment #2).***

Mr. Bonar moved to recommend that the City Manager be authorized to execute a five (5) year contract with an annual fee of $996,000, plus additional services as required, with The Energy Authority, Inc. (TEA), as per the terms of the Request for Proposal (RFP). The motion was seconded by Mr. McGiffin and unanimously carried.

By unanimous consent, the meeting adjourned at 5:54 p.m.

Respectfully submitted,

Eugene B. Ruane
Chairman

EBR/DD/jg/js/ac/tm
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Attachment to Original Minutes and File Copy
Attachment #1 - Presentation - Overview of The Energy Authority
Attachment #2 - Emailed dated March 30, 2011 - Explanation of TEA's Non-Profit Status