UTILITY COMMITTEE

The Utility Committee Meeting was held on March 14, 2011 at 5:01 p.m. with Chairman Ruane presiding. Members present were Mr. McGiffin and Mr. Snaman. Mr. Bonar and Major Kosior were absent. Council President Hogan (arrived at 5:13 p.m. and departed at 5:40 p.m.) and Mr. Leary were also present.

AGENDA ADDITIONS/DELETIONS

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

Authorization to Conduct Financial Analysis of West Deptford Generation Station

Mr. Ron Lunt, Public Utilities Director, reminded members that since May 2007, the Dover 2030 Energy Plan Committee has been meeting periodically to review the PJM Market, evaluate the capacity/energy requirements of the City's system, and identify action plans to address future energy needs. After extensive discussion on the market and capacity/energy shortfall, it was decided in 2008, to solicit the energy development market to gain knowledge of what options are available to the City through a Request for Qualifications (RFQ) process. He explained that the goal was to gain information and knowledge from potential developers and identify possible solutions to the City's requirements. In March of 2009, staff completed Phase II of the project, which was the evaluation of the proposals and the selection of options for which to enter negotiations. Dover Sun Park and Garrison Energy Center Land Lease/Gas Turbine Combined Cycle (GTCC) were the first two (2) agreements to be executed through this process.

Mr. Lunt advised members that the final option available under the RFQ process and the proposal under consideration is a Purchase Power Agreement (PPA) for a GTCC plant located in West Deptford, New Jersey. He explained that the proposed West Deptford Generation Station would be a state-of-the-art GTCC generator offering an extremely efficient and environmentally prudent technology. The basis of the PPA would be that the City would secure 25 Mw of capacity from the 646 Mw Station. He explained that the City would receive a guaranteed heat rate (this is an efficiency measurement for the conversion of natural gas to electric energy) and the City would pay a prorated portion of the operating expenses. He noted that fuel costs are not included in the PPA, as these would be prorated and passed on to all users at the market rate. The energy purchased from the Station would further diversify the City's current energy portfolio by adding an efficient fixed asset and would displace future market-based energy hedges.

Mr. Lunt reviewed the highlights of the proposed PACE Global analysis, as follows:

1. The first task would be to analyze the proposal for fatal flaws, which would include a high-level view of the economics; review of the proposed terms; comparing terms to historic energy and capacity markets; and projecting power supply curves. If no deficiencies are discovered, Staff would direct PACE to proceed to the next task.

2. The next task would be to develop a detailed economic model; forecast future power pricing, potential changes and drivers for possible changes; develop market and technology trends, including the projected plant utilization/dispatch expectations; and identify possible negotiation points. If it appears that the economics of the plant are favorable, staff would direct PACE to proceed to the next step.

3. The final task would be to negotiate the final terms and conditions for the PPA and, if the financial benefits appear to be favorable, staff would present this proposal to City Council for consideration. $15,000 has been budgeted for this phase of the project.

Staff recommended that PACE Global be authorized to proceed with the financial analysis of the West Deptford Generation Station at a cost not to exceed $80,000 and that this project be funded by transferring $80,000 from the Engineering Operating Budget (480-8300-563-30-31) - Contractual Services to the Administration Operating Budget (480-8400-564-30-29) - Consulting Fees.

Responding to Mr. Ruane, Mr. Lunt stated that, although this project would further insulate the City from price volatility, the City would remain subject to the natural gas volatility. Should the capacity market be reduced or eliminated in the future, the City would be subject to paying some capacity payments. If this were to occur, there would be a switch on the energy side, since generators will recover their costs either in a two (2) phase market of capacity and energy or a combined market of energy and capacity. Mr. Lunt indicated that he would then expect power prices to increase in the future to compensate for losses in capacity payments.

At the request of Mr. Ruane, Mr. Lunt briefly reviewed a Presentation - City of Dover (Dover) West Deptford Opportunity Analysis, dated February 24, 2011.

Mr. Snaman questioned the amount of energy that the solar plant and natural gas plant will provide to the City's annual production. Responding, Mr. Lunt noted that the solar plant will provide less than 2% of the City's energy and explained that it would be difficult to compare this to an annual load due to scheduling. He stated that he did not expect the gas plant to be cheaper than the nuclear portion of the grid and anticipated a 60% to 70% dispatch schedule for the gas plant, whereas the City's current plants are less than 2%.

In response to Mr. Ruane, Mr. Lunt confirmed that the analysis will determine if the expectations reported are true and valid and provide a projection of what the future market may be for energy costs. This will assist in determining whether or not the City should enter into a PPA with the Station.

Mr. McGiffin moved to recommend approval of staff's recommendation to authorize PACE Global to proceed with the financial analysis of the West Deptford Generation Station at a cost not to exceed $80,000, and that this project be funded by transferring $80,000 from the Engineering Operating Budget (480-8300-563-30-31) - Contractual Services to the Administration Operating Budget (480-8400-564-30-29) - Consulting Fees. The motion was seconded by Mr. Snaman and unanimously carried.

Power Plant FY 2012 Capital Investment Plan (CIP) Review *(Deferred by Committee on February 28, 2011 Due to Time Constraints)*

Mr. Vince Scire, Plant Manager at McKee Run and VanSant Generating Stations with NAES Corporation, reviewed the draft Capital Investment Plan (CIP) for the Power Plant for Fiscal Years 2012-2016 and explained the need for the additional projects (as highlighted).

In response to Mr. Ruane, Mrs. Donna Mitchell, Controller/Treasurer, confirmed that she has been working on a cost of service revision that will result in amendments to capital needs. She stated that funding to cover the CIP remains consistent. Mrs. Mitchell noted that staff has allocated approximately $800,000 for the future capacity reserve for the VanSant capacity and that funds have been designated in Fiscal Years 2015 and 2016 from the depreciation reserve to help cover costs. She assured members that funding from the operating fund has remained consistent with last year. Mrs. Mitchell stated that the CIP will have no effect on the City's electric rate for the next five (5) years.

Mr. McGiffin moved to recommend approval of the Power Plant FY 2012 Capital Investment Plan (CIP), as presented by staff. The motion was seconded by Mr. Snaman and unanimously carried.

2012-2016 Utility Capital Investment Plan (CIP) ***(Deferred by Committee On February 28, 2011 Due to Time Constraints)***

Mr. Ron Lunt, Public Utilities Director, reviewed the 2012-2016 Utility Capital Investment Plan (CIP) and explained the need for the additional projects (as highlighted).

Mr. Ruane noted that the FY 2011 CIP included the Walker Road Overhead Conversion Project; however, it is not included in the current CIP. Responding, Mr. Lunt reminded members that at the beginning of FY 2011, the project was removed from consideration and some of the funds were allocated to order transmission switches that were failing on North Street. He stated that the Walker Road Overhead Conversion Project was coordinated with the Water System Upgrade, which was determined to be too expensive and was postponed indefinitely. From an electric standpoint, he stated that it was staff's opinion that it would not be feasible to complete the project without addressing the water system upgrade concurrently.

In response to Mr. Ruane, Mr. Lunt indicated that overhead conversion projects (included under "distribution upgrades") are continuing throughout other parts of the City, including Huntley Circle and Autumn Woods Apartments located off Webbs Lane. He stated that staff is in the process of analyzing outages for the past calendar year, which will assist in prioritizing developments and areas for this project. He stated that, although the Crossgates area has been completed, including the removal of overhead lines, work continues in the South State Street Extended area (Old Mill Road, Fairfield Drive, Candlewick Drive, etc.).

Mr. McGiffin moved to recommend approval of the 2012-2016 Electric Engineering and Transmission and Distribution Capital Investment Plan (CIP), as presented by staff. The motion was seconded by Mr. Snaman and unanimously carried.

Mr. Lunt reported that there were no changes to the 2012-2016 Water/Wastewater CIP, as submitted to members previously. He noted that some projects will be carried forward from the current fiscal year, due to funding or scheduling issues; however, these projects will be funded from the current source of funds.

In response to Mr. Ruane, Mr. Lunt stated that staff is attempting to mobilize the contractor to complete the inflow/infiltration (I & I) projects that were identified approximately four (4) years ago, for which funding is in place. He explained that staff is regrouping the I & I priority list by conducting an analysis of those pump stations that have higher rates during wet weather. Staff has been conducting "smoke" testing and an extensive amount of camera investigation on existing infrastructure in areas suspected of problems. Mr. Lunt noted that completion of the "smoke" testing would be necessary before staff can firmly identify the next area for this project.

Responding to Mr. Ruane regarding water quality improvements, Mr. Lunt stated that funding for Bayard Avenue is included in the current year's budget and work will begin once the area in front of City Hall is completed (within a week or so). A pre-bid meeting was held last week for the Route 13 Southbound Water Project and funding is included in the current year's budget. He advised members that staff is delaying the project located east of North State Street in case the bids for the Route 13 Southbound Water Project come in over budget.

At the request of Mr. Ruane, Mrs. Donna Mitchell, Controller/Treasurer, stated that she has not completed an analysis of the water/wastewater funds; however, she stated that since the City opted to use State revolving loan funds rather than issuing a bond, no interest is paid until the money is drawn. Therefore, she stated there will be a change in the forecast model (bonds versus state loans). She is revisiting the rates since the City will not incur the debt service as originally anticipated. As a result, she stated that she expects to see some changes in future rates (on the down side) from those included in the model last year.

In response to Mr. McGiffin, Mrs. Mitchell explained that the forecast currently indicates a rate increase every year to cover debt service, which may not be necessary since the City is not incurring the debt service that was originally anticipated.

Mr. McGiffin moved to recommend approval of the 2012-2016 Wastewater and Water Management Capital Investment Plan (CIP), as presented by staff. The motion was seconded by Mr. Snaman and unanimously carried.

PACE/NAES Monthly Report ***(December 2010) (Deferred by Committee on February 28, 2011 Due to Time Constraints)***

The PACE/NAES Monthly Report for December 2010 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.

In response to Mr. Ruane regarding the new Solar Plant, Mr. Lunt referred to Page 5 of the report and confirmed that the cost of solar energy has been built into the City's Power Year projections and costs over time. Mrs. Mitchell, Controller/Treasurer, explained that the cost of the power supply itself has decreased; therefore, the incremental cost of solar energy is not evident since it is more than offset by the reduction in power supply.

Mr. Snaman moved to recommend acceptance of the PACE/NAES Monthly Report for December 2010, seconded by Mr. McGiffin and unanimously carried.

By unanimous consent, the meeting adjourned at 5:42 p.m.

Respectfully submitted,

Eugene B. Ruane
Chairman

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