

CITY OF DENTON CITY COUNCIL MINUTES

July 16, 2012

Special Called Joint Meeting of the City of Denton City Council and the Public Utilities Board on Monday, July 16, 2012 at 11:30 a.m. at DME Engineering Operations, 1685 Spencer Road, Denton, Texas.

PRESENT: Council Member King, Council Member Roden; Council Member Watts; Mayor Pro Tem Kamp, and Mayor Burroughs.

ABSENT: Council Member Engelbrecht; Council Member Gregory

All Public Utilities Board members were presented with the exception of Board Member Baines and Board Member Herring.

1. Call to order; announce quorum, introductions.

Mayor Burroughs called the City Council to order and announced that a quorum was present.

Chairman Dick Smith called the Public Utilities Board to order and announced that a quorum was present.

2. Receive a report; hold a discussion and give staff direction regarding the proposed Denton Municipal Electric (DME) FY 2013-2017 Capital Improvement Program (CIP).

Phil Williams, General Manager-DME, stated that reliability of service to rate payers was very important and that there were three main factors that affected that reliability of service. Those were disruption, generation and transmission, and substations.

Disruption to service was the most common factor in preventing reliability to service. Several years ago staff had worked on how to improve distribution. Two ways were a tree trimming program and pole maintenance. Both of these programs resulted in a reduction in the number of outages. Another impact on reliability was generation. There was a statewide concern on generation during the summer. Transmission and substations also played a factor in reliability. There had been an increased amount of work on transmission in the past four years but there still needed to be more work. Budget highlights included the fact that there was no base rate increase; the discussion included a lot of capital which would be over the course of 5 years with financing over 20-30 years; and the average residential customer would realize less than a \$2 per month increase.

Council Member Watts stated that there would be no base rate increase this year.

Williams stated that there was no increase in the projections already done.

Key factors included growth, regulation, aging infrastructure, succession planning, and a dynamic wholesale market. Growth and the associated workload was impacting employees who were working excessive hours and not taking vacation. Regulation was affected in terms of NERC/TRE regulations of electric utility reliability that had increased tremendously over the past five years. DME was highly dependent on 40+ year old infrastructure. Age deterioration and growth had resulted in DME having used up much of its old infrastructure over the past 40+ years. DME was also highly dependent on a few key employees who might retire any time. Building bench strength was critically important at this time. The wholesale market was

dynamic at this time due to nodal and record low gas market. DME had experienced steady growth, had no downturn in activity and was masked by the overall economic downturn.

Williams reviewed the DME annual peak loads and trends from 1986-2011; the number of customers; megawatt hour sold; peak load; and the base rate revenue. He showed an area of concern in distribution substation loading. The thought was to have a substation only at 50% of capacity. Denton North, Industrial and Woodrow Substations were above that 50% level.

John Moore, Executive Manager of Energy Delivery, presented information on the Electric FY 2013-2017 CIP. He reviewed last summer with the long days of intensive heat versus this summer which was not as hot thus far. A large CIP had been known for several years. It had been delayed because of uncertainty about the economy but could no longer be delayed. Now was the time to begin making a new investment in Denton's future. There was a 25 year cycle for large electric infrastructure investment by Denton. Fifty years ago the 69 KV transmission system was done; 39 years ago the Spencer Power Plant was done and 25 years ago the 138 KV transmission Loop around Denton was done. There were aging infrastructures that needed upgrading and replacement now. The steady forces of growth and aging combined to cause the need now for a large investment to upgrade Denton's electric utility transmission and distribution system.

Chuck Sears, Engineering Division Manager, discussed what DME was going to do and provided facts about how to do it. He stated that there was a need to think about the time it took to bring concepts from the concept phase to reality and the time to process that concept. Sooner or later there was going to be an outage and there was a need to plan for it. He reviewed the 69 KV line and the fact that much of it was over 20 years old. Challenges included right-of-way challenges as there were not many options in the update. The normal process to build a substation took two years when the land was already owned. What took the longest time was dealing with the city development process and getting the city permits.

Mayor Burroughs presented a scenario where a project category for CIP expenditure was 43% reliability/improvement which was different than aging, etc. If the reliability and improvement were not done, for whatever reason, it would save 43% of the bond program. He questioned the impact of doing such a scenario.

Sears stated that growth was different from reliability.

Moore stated that growth was hooking up new customers while reliability was keeping it working.

Council Member Roden asked about the process going forward for new transmission lines.

Williams indicated that DME would be using a system that was used in Austin.

Council Member Watts questioned the statement that part of the delay in building the substations was going through the development process. He questioned if DME was involved in the government tract for development. There were challenges in that area which were being worked on to resolve. He wondered if there was a need for another briefing for those issues.

Sears stated that the Pockrus Substation was presented as government project. Landscaping and tree coverage became an issue on how to proceed as there was not enough room for 20% tree coverage.

Brent Heath, Engineering Division Manager, presented new residential and commercial development coming in the near future. There was a need to support existing customers and new customers coming on line in the future. There were 31 anticipated projects for next year. He reviewed the feeder extension and improvements by project category.

Williams stated that the feeder projects would tie the system together so that when one transformer failed, the others would keep the system working.

Chairman Smith stated that the PUB had seen this presentation and felt that the Board was convinced as to why these projects had to be done. The next issue was the monetary question – how to get the projects done money-wise and work through the Development Code.

Council Member Watts questioned what type of revenue sharing would be realized on the transmission projects.

Williams stated revenue sharing would apply.

Council Member King stated that the hard decisions with the Development Code needed to be made and to keep moving forward. It was vital to keep the infrastructure running and to not let things pass the city by.

Williams stated that this was the time to borrow money for needed projects.

Council Member Watts questioned if there might be a different financing mechanism. With this magnitude of numbers what affect would there be if the right-of-way costs were Certificates of Obligation.

Bryan Langley, Chief Finance Officer, stated that there would be no effect on the city's financial rating as the city would be able to show that this was self- supporting debt.

Mayor Burroughs stated that only a certain percentage of the debt would be issued in a particular year.

City Manager Campbell stated that staff wanted Council to be aware of the issue and the magnitude of the dollars involved but would continue to move ahead with the budget and CIP planning. No specific direction was needed.

3. Under Section 551.042 of the Texas Open Meetings Act, respond to inquiries from the City Council or the public with specific factual information or recitation of policy, or accept a proposal to place the matter on the agenda for an upcoming meeting

AND

Under Section 551.0415 of the Texas Open Meetings Act, provide reports about items of community interest regarding which no action will be taken, to include: expressions of thanks, congratulations, or condolence; information regarding holiday schedules; an

honorary or salutary recognition of a public official, public employee, or other citizen; a reminder about an upcoming event organized or sponsored by the governing body; information regarding a social, ceremonial, or community event organized or sponsored by an entity other than the governing body that was attended or is scheduled to be attended by a member of the governing body or an official or employee of the municipality; or an announcement involving an imminent threat to the public health and safety of people in the municipality that has arisen after the posting of the agenda.

There were no items presented.

The Public Utilities Board meeting was adjourned.

Following the completion of the Special Called Session, the Council convened in a Closed Meeting to consider the following:

1. Closed Meeting
 - A. Deliberations Regarding Certain Public Power Utilities: Competitive Matters - Under Texas Government Code Section 551.086
 1. Receive competitive public power competitive and financial information from staff regarding a proposed FY 2012-2013 operating budget for Denton Municipal Electric (“DME”), including without limitation, expected revenues, expenses, commodity volumes, commitments, and financial direction of DME; discuss, deliberate and provide staff with direction regarding this matter.

No action was taken on Closed Meeting items.

With no further business, the meeting reconvened in Open Session and was adjourned at 2:00 p.m.

MARK A. BURROUGHS
MAYOR
CITY OF DENTON, TEXAS

JENNIFER WALTERS
CITY SECRETARY
CITY OF DENTON, TEXAS