

**MINUTES
PUBLIC UTILITIES BOARD**

Monday, March 13, 2017

9:00a.m.

City Council Work Session Room

After determining that a quorum of the Public Utilities Board of the City of Denton, Texas is present, the Chair of the Public Utilities Board will thereafter convene into an open meeting on Monday, March 13, 2017 at 9:00a.m. in the Council Work Session Room at City Hall, 215 E. McKinney Street, Denton, Texas.

Present: Chair Randy Robinson, Vice Chair Susan Parker, Barbara Russell, Charles Jackson, and Brendan Carroll

Ex Officio

Members: Todd Hileman, CM

Absent: Jon Fortune, ACM, Allen Bishop and Lilia Bynum

OPEN MEETING

CONSENT AGENDA

- A. PUB17-063** - Consider recommending approval for the expenditure of funds to be allocated for the renewal of the Laboratory Information Management System (LIMS) maintenance and additional software technical support contract, including associated training and implementation support. This expenditure includes technical support, lab staff training, and assistance from LabWare for the continued development of the LIMS to meet the operational and regulatory requirements of the Denton Municipal Laboratory and its customers. The training and implementation support funding is expected to be spent over the three years in an amount not to exceed \$79,600. The Maintenance and Software Technical Support Contract will be in an amount not to exceed \$30,360 expended over three years. The total for additional expenditure is an amount not to exceed \$109,960. The grand total of this amended contract would be an amount not to exceed \$182,800. (Contract 5441)

Board Member Russell motioned to approve item A, with a second by Board Member Parker. Vote 5-0 approved.

- B. PUB17-066** - Consider recommending approval of an amendment to a Development Agreement between the City of Denton and Carmen Investments, Inc., for the provision of water and sanitary sewer service for Phase II A of the Country Club Village Addition.

Chair Robinson recused himself from this item.

Board Member Russell motioned to approve item B, with a second by Board Member Jackson. Vote 4-0 approved.

- C. PUB17-070** - Consider recommending adoption of an ordinance of the City of Denton authorizing the City Manager or his designee to execute a contract for the acquisition of (1) trommel for use in the Solid Waste department's building materials recovery (BMR) operation; and providing an effective date (File 6212-awarded to McCourt & Sons Equipment, Inc. in the amount not to exceed \$363,264).

Board Member Parker had a question on this item. How much difference in timing of delivery and how did the bidder not meet specifications. Vance Kemler answered all the

bidders had to be prequalified and had to bring their equipment to our site to run for several days. McCourt had ease of use and ease of change out. The performance was higher. Delivery was one month sooner. **Board Member Parker added others didn't put a price on options.** Kemler answered they did not. **Board Member Russell asked if staff is replacing equipment,** Kemler answered no this is new equipment. **Russell then asked if it will be used for mining.** Kemler answered it would be able to be used in that process.

Board Member Parker motioned to approve item A, with a second by Board Member Russell. Vote 5-0 approved.

ITEMS FOR INDIVIDUAL CONSIDERATION

A. PUB17-059- Consider recommending approval of the Public Utilities Board Meeting minutes of February 27, 2017.

Approved as circulated

B. PUB17-022 - Consider recommending approval of an ordinance of the City Council of the City of Denton, Texas authorizing the City Manager to execute an professional services agreement with Black and Veatch Corporation for professional testing and verification services relating to the construction of the Denton Energy Center; authorizing the expenditure of funds therefor; in the amount of not-to-exceed \$963,930 and providing an effective date.

Mike Grim gave the presentation beginning with the purpose of an owner's engineer. This is required pursuant to Texas Government Code 2269, Section 2269.355 and 2269.356 for design-build contracts. The engineer oversees the design and construction of the project and has independent inspection and testing services and verification testing services. The cost of the Owner's Engineer scope is included in the overall project budget.

Evaluation team consisted of Shelby Maloy, Jose Gaytan, Jerry Fielder and Chris Lutrick.

RFQ evaluation criteria included understanding of the City's requirements, experience on similar projects, and respondent and key personnel qualifications. The evaluation summary was shared with the Board. There were four companies that ranked at the top.

Staff started with Leidos based on experience and EPC relationship. However, due to the fact that Leidos and the City could not come to an agreement negotiations were terminated. The second rated respondent was Black & Veatch. Larry Collister added all terms on the contract were worked out on March 10.

Grim stated that the Scope of Work is included in the back up information.

Staff recommends PUB recommend approval to City Council of a contract with Black and Veatch in an amount not to exceed \$963,930 for Owner's Engineer services

Robinson asked main difference Leidos and B&V is experience and the EPC relationship. Grim agreed. **Parked stated that the EPC relationship can be overcome,** Grim agreed. **Jackson asked what was the reason Leidos and the City couldn't agree,** Grim answered it was insurance coverage.

Board Member Jackson motioned to approve item B (PUB17-022), with a second by Board Member Parker. Vote 5-0 approved.

C. PUB16-258 - Consider recommending adoption of an ordinance of the City Council of the City of Denton, Texas authorizing the City Manager to execute an interconnect agreement with Enterprise Texas Pipeline, LLC for professional engineering and construction services relating to the construction of the Denton Energy Center; authorizing the expenditure of funds therefor; in the amount of not-to-exceed \$1,326,000 and providing an effective date.

Mike Grim gave the presentation as well. This item is the fuel supply infrastructure for Denton Energy Center.

The fuel supplier Enterprise Texas Pipeline L.P. One of the reasons for the site selection is the natural gas pipeline that is located on the project site. They are familiar with serving power plants.

The major fuel supply components were discussed.

The budgeted amount for this item was \$1,800,000, the proposal came in at \$1,327,000 which is under budget \$463,000.

Current status is Larry Collister will provide the Fuel Supply Infrastructure Interconnection Agreement, that proposal will be an exhibit to the agreement.

Staff recommends PUB recommend approval to City Council of the proposed fuel supply interconnection agreement with Enterprise Texas Pipeline, LLC. in an amount not to exceed \$1,327,000 to provide fuel supply infrastructure for the Denton Energy Center

Board Member Russell motioned to approve item B (PUB17-022), with a second by Board Member Parker. Vote 5-0 approved.

Robinson stated that the pipeline and equipment belongs to them, Grim agreed.

D. PUB17-069 - ACM Update

1. 1st Quarter Financial Report
2. Update Several Drainage Projects
3. Matrix

Matrix no changes

Work Session item was presented at the end of the meeting.

WORK SESSION

A. PUB17-071 - Receive a report from staff regarding key financial information on Denton Municipal Electric including revenues and expenditures, rate stabilization fund, the current Capital Improvement Program, the Renewable Denton Plan and Denton Energy Center project, debt and rates.

Phil Williams gave the presentation. His personal anniversary is this year being in the electric

business for 40 years. This presentation was put together to as a comprehensive overview to respond to questions and concerns about where DME is going what the status of projects are and clarifying any items.

Williams began talking about the structure of DME. DME is a department within the City and was founded in 1905. DME reports through City Management, with this advisory Board appointed by Council which is elected by the City residents.

There are 72 municipally owned electric utilities (MOUs) in Texas. Texas has nine of the largest 100 MOUs in the country.

Williams then went over the budget highlights and revenue definitions.

“Base rate” refers to the portion of the electric rate that pays for the delivery of power, such as constructing and maintaining the electric system.

“TCRF” stands for transmission cost of recovery factor, and refers to the portion of the electric rate that pays other entities across Texas for constructing transmission infrastructure.

“ECA” stands for energy cost adjustment, and refers to the portion of the electric rate that pays for power purchases.

“TMPA coverage return” refers to the working capital that is provided to and returned from TMPA each year by the four member cities.

“TCOS” stands for transmission cost of service, and refers to the payment DME receives from other entities across Texas for constructing transmission infrastructure.

Budget highlights, revenues were talked about from actuals of FY2010-2016 to proposed FY2016-2021.

Budget highlights, expenditure definitions are:

“Purchase Power & Fuel” refers to DME’s expenses related to purchasing wholesale electric power and purchasing fuel for the purpose of generating wholesale power. This cost is projected to drop as the Denton Energy Center reallocates costs from this category to personal services and debt service.

“Transmission of Power” refers to the cost of transmitting electricity through transmission lines that are not owned by DME.

“Personal Services” refers to the cost of staffing DME. This cost is projected to rise as more functions (including generating power) are accomplished by DME staff rather than being outsourced.

“Operations & Maintenance” reflects the cost of keeping Denton’s electric system operational. Examples include vegetation management and replacing aging or damaged utility poles.

“Return on Investment & Franchise Fee” are paid to the City of Denton based on a percentage of DME’s revenue.

“Debt Service” refers to the payments DME makes against its debts.

“Interfund Transfers” are payments made by DME to other City of Denton departments for the services those departments provide to the utility.

“Fixed Assets” refer to expenses for tools and equipment above \$5,000 that are used to maintain the electric system.

Budget highlights, expenditures were talked about for the same period of time.

Expenditures were shown on a graph for illustration purposes. With the Denton Energy Center expenditures will shift from “fuel and purchased power” to debt.

Robinson stated that the pieces are changing as well as the bottom line.

Parker added the debt service changed because of coming online mid-year, Williams agreed.

Rate stabilization history and projections. These balances are estimates of what can be used to pay down debt, reduce rates, revenue fund capital projects, or some combination of the three. This will be discussed in upcoming budget discussions.

Reserves policy was restated as from the last PUB meeting. Parker has raised the question at the last meeting if operating days of 60-75 days was enough. Williams answered you have to look at the market and see what it is, in today's wholesale market and believes it is enough. Prices are lower than they have ever been.

Capital Improvement Plan – Williams described a highway system that was built to full capacity with all events counted and driving the speed limit at any time. That would normally be large and very expensive. For utilities you cannot do without. Whether it is hot or cold, dry or wet, utilities are expected to be there. Electric infrastructure is designed to meet peak demand.

DME peak loads and trends have continued to increase, the graph began at 1960. In 2011 electric had a record heat wave year. In August 2016 electric had a drainage project planned because it is always hot and dry. This particular year it rained. Which made it a 'mild' year but it still had the same peak as in 2011, because of growth. This gave DME a chance to measure the system and the flow through.

A map was shown of the DME substations and their loads.

DME CIP budget and actual CIP expenditures by fiscal year was discussed.

FY2011 – had two major events, it was the first year that the FERC 715 study was required and the heat wave in August. With the heat wave, DME new they needed to step up building substations and transmission lines with building out on their capital improvement plan.

- 2013 CIP outline included 27 projects and a five year transmission forecast of \$171,525,000.
- 2017 CIP outline has increased to 42 projects and a five year transmission forecast of \$220,050,000. The load has increased in our system as well as the neighboring systems.

Williams went over the CIP & Regulation. In addition to DME's governance structure, the utility is regulated by these state and federal agencies. FERC, NERC, and TRE ensure compliance of utilities (such as DME) that own and operate transmission systems. ERCOT and the PUCT are responsible for the integrity of the state-wide power grid.

Substation spacing - The FERC 715 study is a valuable tool for understanding Denton's needs related to transmission reliability. It helps determine the distance between substations along with other factors.

The capital improvement plan budget by fiscal year was shown on a spreadsheet that included costs for the distribution system, transmission system and the Denton Energy Center. Todd Hileman added that this information was put together to show the actual costs for the press and that there are no hidden cost.

Williams then went over the Denton Energy Center Status. To date, Council has approved execution of contractual obligations exceeding \$200 million. Engineering design, site prep, and engine fabrication are well underway. Over \$42 million have been paid out on the project. Engines are expected to ship this June. The budgeted items and costs were discussed. Williams added that they had an opportunity to speak with a Company that just installed this

same type of system. There will be changes associated with this conversation and inspection. Grim spoke about the changes in the DEC some will be decreases not only increases. Chuck Springer spoke about the debt which is \$734,000,000 projected out to 2021. DME percentage of debt paid off for the next 25 years was presented. Springer added that the TCOS revenue that is received will offset some of the debt.

Williams finished the presentation talking about the rates and showing the projected rates on a graph. Seventy percent of the plan going forward is renewable energy.

Robinson asked about the contracts going forward, the closer to 20 years that staff can be on a certainty of what it will cost for energy the better off we are. How are we seeing the horizon going out with rates going down. Williams answered staff has received responses out for 10, 15 and 20 years. After the evaluation period, staff will bring them back to this Board.

Parker asked what impact will tax reform have on solar and wind if they take away the taxes. Williams answered the speculation from him the tone is they will leave the production tax credits for wind alone because they already have a plan of how to do away with them a way that the industry has accepted. The investment tax credits that solar has, there is not a definite plan yet. The anticipation is that they will probably go away in a couple of years.

CONCLUDING ITEMS

Under Section 551.042 of the Texas Open Meetings Act, respond to inquiries from the Public Utilities Board 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.

Carroll – methane update add to matrix

Adjournment 10:04 a.m.

Approved 3/27/17