



**City of Denton
MINUTES
PUBLIC UTILITIES BOARD**

City Hall
215 E. McKinney Street
Denton, Texas
www.cityofdenton.com

Monday, December 10, 2018

9:00 am

Council Chambers

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, December 10, 2018 at 9:00 a.m. in the Council Chambers at City Hall, 215 E. McKinney Street, Denton, Texas

Board Members: Chair Susan Parker, Vice Chair Brendan Carroll, Allen Bishop, Lilia Bynum, Karen DeVinney, and Charles Jackson

Ex Officio Members: Todd Hileman, City Manager; Mario Canizares, Assistant City Manager

Absent: Billy Cheek

WORK SESSION

A. **PUB18-229** - Receive a report, hold a discussion, and provide staff direction regarding Phase 2 of the 2018 Denton Municipal Electric - Energy Risk Management Policy.

George Morrow briefly talked about this item and introduced Philip DiPastena to make the presentation.

DiPastena stated this presentation is regarding the proposed changes to the Energy Risk Management Policy with detail.

Objectives & Metrics

Risk Management Performance Objectives and metrics added to Section 1.2

One thing staff is trying to do with this is to be more quantitative in the measurement of how the EMO is doing. There are some metrics that are being proposed to reflect this. First is to reduce risk which is exposure to price volatility and volumetric variability. Second is comparison of actual energy costs (including hedges and ERCOT balancing transactions, but excluding PPAs) to the annual average ERCOT Day Ahead Market (DAM) price, plus a hedging premium. Lastly the comparison of DME average rate to that of other Texas municipal utilities.

Organizational Structure

Another change staff is proposing is to 'beef up' the responsibilities of the Risk Management Committee.

The Front Office is the day to day management of energy portfolio and interactions with ERCOT.

The Middle Office monitors compliance with Policy.

The Back Office is the accounting and settlements and coordinates with the City Finance Department.

Risk Controls – Business Models

Maintains record of all operational models used.

Energy Portfolio Risks

Adding Description of the inherent risks in managing an energy portfolio.

The most talked about risk is price but there are other risks that include volume, liquidity, credit, model and regulatory risk.

Risk Exposure Limits

With being quantitative, staff is proposing a target of \$15 million of how much we are willing to pay to try and manage risks. Some metrics will be used that are called 'at risk' metrics. They generally take historical information of prices and price correlations and volatility and consolidated into a single number. Staff is going to use that information compared to this \$15 million threshold. If market conditions become more volatile and it looks like we're going to have to spend more than about \$15 million over at a rolling 12-month period. Then we go to the risk committee and if we went over 125 percent of that target staff would actually come back to this Board and the City Council and explain what was going on with the market and either manage that and reduce the risk or accept it and move forward.

Additionally there is a concept called open position which is the vulnerability we are to the market prices.

Another section that is being added is the **Congestion Management Strategy**. Manage "basis risk" –the possibility of pricing difference between locations.

Hedging Strategies & Plans

Staff is going to ask the energy training group to develop plans for the next three years and review those with the risk committee at the beginning of each year. After that a report will be generated explaining how they will meet the targets.

Miscellaneous Changes

Updated EMO Organizational Chart and job titles

Approved Transaction Types

New Product / Market Instrument Approval Checklist

Additional Ongoing Activities

Review and update EMO Procedures Manual to reflect Phase 2 updates

Implementation of RMC Executive Dashboard

Implementation of standard report templates for communicating with Council and PUB

Periodic training of Council and PUB on market fundamentals & commodity trading

Cross training to provide redundancy across EMO Front, Middle and Back Office groups

Knowledge sharing and increased interaction between EMO Front, Middle and Back Office groups

Additional AIS Memo Attachments

There are additional attachments that were included in the backup materials today.

George Morrow finished the presentation talking about the **Summary of Changes**.

The goal that staff is reaching for is the increased transparency and oversight of the risk management activities. These changes came from the consultant Deloitte and staff and is a living document that will have changes. Additional changes with an RFP out soon is the Energy Trading/Risk Management (ETRM) system.

Board Member Carroll asked 'Customer Risk Tolerance' component. Was the \$15 Million by historical assumption of risk. Morrow answered there was some surveying outside of DME and Mr. DiPastena's history seemed that 10 percent is promoted by many utilities.

Carroll then asked if staff expects to spend the \$15 Million per year mitigating the risks or is that a budget cap. Morrow, we do not expect to spend that money. This is really just to keep us in the field. Our prediction is the budget that we have. Rates have been set and we want to stay within those rates.

Chair Parker asked if this \$15 Million is above what our budget is, Morrow agreed. Staff wouldn't wait until the \$15 Million to start working, this is watched every day.

Board Member Bishop asked is the \$15 Million the hedge or are there market hedges that you are talking about. Morrow answered that would be additional cost of power supply. It is the cost of all of our resources, contracts, Denton Energy Center; the pool of cost being increased by \$15 Million. It forces us all to think about our risks.

Carroll stated that the DEC was mentioned, we know the DEC will lose money and we need more money to keep it operational. Does that mean we will pull money from this fund to keep it operational or for maintenance. Morrow answered the fixed cost for maintenance of the DEC is in the budget. This \$15 Million is the day to day hour to hour market items.

Todd Hileman stated the worst case scenario the DEC will break even. The DEC is not a financial risk when it runs.

Parker asked about the training sessions for Council and this Board, will that be a joint work session. Morrow answered that hasn't been completely decided but could be a joint effort.

B. **PUB18-230** - Receive a report, hold a discussion, and provide staff direction regarding the Solid Waste department's Building Materials Recovery and rubble processing operations.

Ethan Cox gave the presentation reminding the Board that last summer a consulting group named Blue Ridge Services was hired to provide an overview of what is and is not working. Solid Waste has number of operations and programs that has been put forth for the community. Some of the recommendations were to step away from the operation but almost all cases were opportunities to improve. After this was presented to Council they appreciated the consultant's information and then wanted staff to dive deeper for more analysis. There will be several of these discussions over the next few months.

What is a Business Case Analysis.

Definition - A business case analysis evaluates the benefits, costs, and risks associated with a program, proposed investment, or plan of action.

Elements of the case analysis include:

- Program Purpose & Objectives
- Evaluation of Results
- Financial Analysis
- Risk Assessment
- Conclusion/Recommendations

Rubble/BMR Analysis Definitions:

Rubble - Waste fragments of stone, brick, concrete, or asphalt

Building Materials - Waste brick, concrete, glass, drywall, metals, insulation, lumber, etc. Metals is the only one that can be recycled.

Diversion - Process of diverting materials from the landfill. Stored and stockpiled material is not counted as diverted material. Material is moved offsite.

Rubble/Build Materials Recovery Purpose & Objectives:

Department Objective is to divert 40 percent of all waste accepted

Purpose:

Rubble Processing – Sort & process rubble to sell as aggregate products (crushed concrete, soil, etc.).

Building Materials Recovery (BMR) – Sort, recover & divert construction wastes from landfill disposal through reuse or recycling.

Participants:

Customers – Private Contractors, Commercial Operators, City Departments

Operations – Landfill, BMR, Former Mining Operation

Program Performance FY12/13 – FY 16/17 is based on diversion. Diversion is accounted for by weight. Over the last five years there were 301,984 tons accepted for rubble, and 93,035 accepted for BMR. Of the rubble about nine percent was diverted and of the BMR about ten percent was diverted.

The diversion for rubble means the end product was sold or moved offsite. There is about 140,000 tons that staff cannot account for. The assumption is this was either used for road base (which is not diverted) or another capital project which is not accounted for. It could have left the site without being weighed.

Challenges:

The source material is very contaminated

Limited market for recovered material; other processing firms are more efficient

Financial Overview:

Historical Income/ Loss FY 12/13 – FY 16/17 was reported with approximately \$1,000,000 loss per year. The best actual numbers to run both of the operations would be FY 16/17 which is \$3,386,971. This year FY 18/19 has been brought down to \$2,705,737 because of some recent changes listed below.

- Removed 10 FTEs (Previously assigned to Mining/BMR)

- Reduced temporary labor expense by \$268,000

- Debt service represents \$1.2 million of the \$2.7 million FY 18/19 budget

Council Direction – June 26, 2018

Blue Ridge Recommendation

- Discontinue BMR operations due to financial losses, expensive equipment, and operational inefficiencies.

- Discontinue in-house rubble processing. Use rates/policy to regulate volumes accepted

Council Direction

- Temporarily convert BMR into a public disposal area (PDA)

- Relocate recycling drop-off near the PDA

- Temporarily suspend rubble processing operations

- Present results & analysis to Committee on the Environment

Cox showed pictures of the conversion of BMR to PDA and explained the processes.

About half of the cost has been cut.

Another area that has been cleaned up is the recycling drop off area. It was open access at Mayhill Road and Spencer Road. Cardboard diversion was at 90 percent. Single stream diversion was less than one percent. There was 99 percent that was landfilled, it was too contaminated to sort.

It was recently moved inside the Solid Waste Facility with monitored assess. Cardboard diversion remained at 90 percent. Single stream diversion increased to 80 percent with only 20 percent landfilled.

Remaining Challenges:

- \$1.5 million process rubble stockpiles. 20 percent recoverable material (80 percent has soil/waste).

 - \$3.32 million potential airspace loss. Processing should recover approximately \$664,000.

 - \$180,000 in avoided cost for purchased aggregate

Located on top of future landfill cells
-Limited resale market. Use aggregate for roads & tipping pads

Options and Recommendations

Option 1:

- Discontinue acceptance of rubble from commercial entities
- Quality standards for material from City Departments (less than five percent contamination)
- Sort & process existing stockpiles over the next five years (approximately \$300,000/year) - Use material for internal operations
- Eliminate BMR & continue public disposal area & recycling drop-off

Option 2:

- Reinstate rubble & BMR operations, the associated operational expenses and capital investments. Requires increase to FY 18/19 budget approximately \$680,000.

Cost of Service Impact was explained for residential and commercial.

Environmental Impact

Emissions:

Option 1 requires 20 less pieces of heavy equipment

Other Factors:

Greenhouse gas reduced due to less waste accepted
Reduction in dust from BMR & Rubble processing

Prior Discussions

Council Committee on the Environment:

- Recommended Option 1 – Cease BMR & commercial rubble operations
 - Explore local partnerships to divert building materials (i.e. brick)
 - Consider rate changes that encourage material sorting/diversion

Board Member Bynum asked about where else people could go for these services. Cox answered there are concrete processors around our area. There are other opportunities for other types of processing as well. Bynum stated a concern would be illegal dumping, Cox answered that is a risk.

Carroll asked if we have a way to monitor the risk of illegal dumping, Cox answered not a good one. The sites that Solid Waste manages, they have a good handle on it. Staff would meet with code enforcement and other departments to see where the areas of illegal dumping are. Also picking up bulky items does help with this problem.

DeVinney stated that Option 1 would be her choice.

Bynum Option 1, with the caveat of finding a way to help with the illegal dumping issue.

Parker Option 1

Carroll stated with rubble processing if we can't account for 140,000 tons, if that was diverted the numbers would be at about 60 percent. The rubble processing has not been managed effectively and staff is asking for a recommendation to close it. Carroll has a hard time recommending closing with it being mismanaged.

Carroll then asked if the definition of diversion has changed over the years. Cox answered with an example of lumber that was counted as a diverted material. What was actually happening is it was being processed and put in the liquid disposal operation to be a bulking agent and all of it ended up in the landfill. By our definition that is not diversion.

DeVinney asked if there is a huge rush on rubble how long would it take to re-instate. Cox answered it would depend on the type of operation was implemented.

Parker clarified that we are only discontinuing from commercial entities, which have another alternative to go to. Should we be competing with the alternatives. Cox answered it is from commercial operators and contractors. Cox went on to say that some of the alternatives will accept the rubble free and can make up the cost on the other side, the City of Denton does not have the ability to do that.

Bishop and Jackson agreed with Option 1.

REGULAR MEETING

1. CONSENT AGENDA

- A. PUB18-203** - Consider recommending the adoption of an ordinance of the City of Denton, Texas establishing a utility billing adjustments policy; providing a severability clause and providing an effective date.
- B. PUB18-223** - Consider recommending adoption of an ordinance of the City of Denton, Texas, a Texas home-rule municipal corporation, authorizing the City Manager, or his designee, to execute a contract through the Buy Board Cooperative Purchasing Network Contract # 515-16 for the acquisition of one (1) Directional Boring Machine for the Water Distribution Department; providing for the expenditure of funds therefor; and providing an effective date (File 6880 - awarded to Vermeer Equipment of Texas, Inc., in the amount of \$137,464.40).
- C. PUB18-225** - Consider recommending adoption of an ordinance of the City of Denton, Texas, a Texas home-rule municipal corporation, authorizing the City Manager to execute a Professional Services Agreement with Freese and Nichols, Inc. to assist in developing a Water Distribution Asset Management Plan, including, strategic planning, maturity assessment, and risk-based assessments of pipeline assets as set forth in the contract; providing for the expenditure of funds therefor; and providing an effective date (RFQ 6590-045 - Professional Services Agreement awarded to Freese and Nichols, Inc., in the not-to-exceed amount of \$215,200).
- D. PUB18-226** - Consider recommending adoption of an ordinance of the City of Denton, Texas, a Texas home-rule municipal corporation, rejecting any and all competitive bids under IFB 6900 for the construction of PEC 4 Phase 1 and 2 Drainage Improvements and Elm and Locust Water, Sewer, and Fiber Improvements from Hickory to Eagle for the City of Denton; and providing an effective date (IFB 6900).
- E. PUB18-227** - Consider recommending adoption of an ordinance of the City of Denton, Texas, a Texas home-rule municipal corporation, authorizing the City Manager to execute a contract through The Interlocal Purchasing System (TIPS) Cooperative Program Contract # 2092415 for the replacement of the roof at 1001 South Mayhill and City Hall; providing for the expenditure of funds therefor; and providing an effective date (File 6908-awarded to Roof Management Services, Inc., the amount of \$665,640).

Board Member DeVinney asked if the roof was subject to historical designation. Mario Canizares answered it is not, this is a maintenance item.

**Board Member DeVinney motioned to approve this item second by Board Member Bynum.
Vote 6-0 approved**

- F. PUB18-228** - Consider recommending adoption of an ordinance of the City of Denton, Texas, a Texas home-rule municipal corporation, authorizing the approval of a first amendment to the Advisory Services Frame Agreement between the City of Denton and DNV GL Noble Denton USA, LLC, to develop an integration of their Synergi Electric planning software to the ITRON Meter Data Management System (MDMS) software for Denton Municipal Electric, amending the contract approved by Purchasing Staff on May 25, 2017, in the not-to-exceed amount of \$50,000. In accordance with Texas Local Government Code 252.022, provides that procurement of commodities and services that are available from one source are exempt from competitive bidding; and if over \$50,000 shall be awarded by the governing body; and providing an effective date (File 6445 - providing for an additional expenditure amount not-to-exceed \$45,336, for a total contract amount not-to-exceed \$95,336).

Board Member Jackson motioned to approve Consent items A, B, C, D and F with a second by Board Member Bishop. Vote 6-0 approved.

2. ITEMS FOR INDIVIDUAL CONSIDERATION

- A. PUB18-221** - Consider approval of the Public Utilities Board Meeting minutes of November 12, 2018.

Approved as circulated.

- B. PUB18-218** - ACM Update:
1. Water and Wastewater Rate Comparison
 2. Future Agenda Items
 3. Matrix

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

DeVinney – Asked if the dumpsters on Oak Street to be added for the Meuse streets.

Carroll – Public Notification sent to the PUB members prior to public to help defuse issues.

CLOSED MEETING

A. PUB18-220 - Deliberations regarding Real Property - Under Texas Government Code Section 551.072; Consultation with Attorneys - Under Texas Government Code Section 551.071.

Discuss, deliberate, and receive information from staff and provide staff with direction pertaining to the acquisition of real property interests located in the Alexander Hill Survey, Abstract No. 623, Denton County, Texas, generally located in the 800 block of Eagle Drive, a 1.656 acre tract situated at the southeast corner of the Bernard Street / Eagle Drive intersection, City of Denton, Texas. Consultation with the City's attorneys regarding legal issues associated with the acquisition or condemnation of the real property described above where a public discussion of these legal matters would conflict with the duty of the City's attorneys to the City of Denton and the Denton City Council under the Texas Disciplinary Rules of Professional Conduct of the State Bar of Texas, or would jeopardize the City's legal position in any administrative proceeding or potential litigation. (Eagle Electric Substation)

Adjournment: 10:24am

Approved 1/14/19