

DELAWARE MUNICIPAL ELECTRIC CORPORATION
REGULAR MEETING
DEMEC ADMINISTRATIVE BUILDING
SMYRNA, DELAWARE
November 21, 2017

A meeting of the Board of Directors of the Delaware Municipal Electric Corporation was held Tuesday the 21st day of November, 2017 at DEMEC's Administrative Building, Smyrna, Delaware.

The meeting was called to order at 10:05 A.M. with Dolores Slatcher, Chairwoman, presiding.

The following roll call was presented:

Present:

Dolores Slatcher, Chairwoman
Representing Seaford
Austin Calaman, Alternate Director
Representing Lewes BPW
Eric Norenberg, Director
Representing Milford
Rick Carmean, Alternate Director
Representing Milford
Gary Stulir, Director
Representing Smyrna
Pamela Patone, Director
Representing MSC of New Castle
Roy Sippel, Alternate Director
Representing MSC of New Castle
Charles Anderson, Alternate Director
Representing Seaford
Lori Peddicord, Alternate Director
Representing Dover
Mary Ellen DeBenedictis, Director
Representing Clayton
Thomas Coleman, Director
Representing Newark
David Del Grande, Alternate Director
Representing Newark
Morris Deputy, Director
Representing Middletown
Tyler Reynolds, Alternate Director
Representing Middletown
Patrick E. McCullar, President
Representing DEMEC

DEMEC Staff Attending: Kimberly Schlichting, SVP-Operations & Power Supply; Louis Vitola, VP-Finance; Steve Siok, Director of Beasley Plant Operations & Compliance; Scott Lynch, VP-Asset Development; Shannon Maner, Energy Services Manager; Stephanie Dove, Manager of Accounting & Settlements; Heather Contant, Communications Specialist; Kendra Friel, Administrative Assistant.

Guests Attending: Lincoln Willis, The Willis Group, LLC.; John Schelich, Clear Channel Outdoor; Evan Miller, Local Government Management Fellow with the City of Milford; Donna Kara, CPower; Bill Oosterom, CPower

MINUTES

The minutes of the following meetings were presented for approval:

1. Minutes of the Meeting of September 20, 2017

Upon motion by Clayton to approve the minutes of the annual meeting of September 20, 2017, seconded by Milford, the motion passed unanimously.

2. Minutes of the Executive Meeting of September 20, 2017

Upon motion made by Clayton to approve the minutes of the Executive meeting of September 20, 2017, seconded by Newark, the motion carried unanimously.

TREASURER'S REPORT

The President presented the Treasurer's Reports for September and October, 2017.

Upon motion by MSC of New Castle, second by Middletown, and unanimous approval without objection, the September financial statements were accepted.

Upon motion by Newark, second by Milford, and unanimous approval without objection, the October financial statements were accepted.

APPOINTMENTS / ELECTIONS

None.

PRESENTATIONS

2017/2018 Demand Response Program Year Report –

Bill Oosterom, Senior Executive with CPower, presented on the 2017/2018 Demand Response Program Year which included the PJM program and the DEMEC program. The aggregate performance of the DEMEC participants totaled 10,538kW which was 806 kW over compliant.

Since inception of the program in 2011/2012, DEMEC participants have received over \$1.6 million in program payments from PJM and DEMEC. 2017/2018 program payments alone totaled over \$308,925.

As a result of PJM not receiving a satisfactory response for load control during the 2014 Polar Vortex, PJM is moving to an annual program to capture load control commitments beyond just the summer months. Transition begins June 1, 2018 and by June 1, 2020, the annual Capacity Performance program will be the only program available.

President McCullar further explained that that for each kW that we can reduce results in lower PJM capacity, transmission and ancillary costs.

CPower is continuing to work with DEMEC staff to register incumbent participants and provide educational meeting for prospective participants.

President McCullar thanked CPower for their good work for us over the past several years.

Public Power Week Update –

John Schelich, of Clear Channel, provided the board with a brief summary regarding the marketing approach of their Public Power Week billboards and mobile ads. The overall campaign outcome was deemed successful as measured by the number of views and impressions. Discussion was had on the calculations of views and impressions and how the ads reached the targeted audience. Creating opportunity to be seen is important in any marketing campaign, and Mr. Schelich welcomed the opportunity to sit down with members to have a conversation on how best to get their messages out. Members were encouraged to let Clear Channel know as far in-advance as possible to reserve billboard locations they deem most desirable.

RESOLUTIONS

2017-7 Demand Response Contract Renewal

This resolution authorizes the president to enter into a contract with CPower, through an addendum of the existing contract, for an additional three years. Upon motion by MSC of New Castle, with amendment to delete the second repetitive “Whereas” section, second by Middletown, and unanimous approval without objection, the Demand Response Renewal Resolution was approved.

2017-8 Resolution to Approve Disbursement Policy

The Audit Committee met in August and suggested language changes to DEMEC’s Disbursement Policy, which was first drafted in 2016. The committee wanted to broaden the policy to include all disbursements and formalize some policies that have already been in practice. DEMEC solicited feedback from its independent auditors; the resolution provided today in packets includes inputs and comments from the Audit Committee and auditors.

Upon motion by Milford, second by Newark, and unanimous approval without objection, the Disbursements Policy Resolution was approved.

COMMITTEE REPORTS

Executive Committee – President McCullar reported that the Executive Committee met prior to the board meeting. Discussions of that meeting are suggested to be held during this regular board meeting's executive session.

Audit Committee – While the minutes detail the Committee's last meeting, Pam Patone, Committee Chair, added that they have reviewed DEMEC's third quarter financial statements at their last meeting. They also met with the auditors when they were here for preliminary field work. They were able to discuss what the auditors are doing this year and made some suggestions, had discussions on areas of concern and areas to concentrate on. Good conversation was had regarding their audit interviews and a calendar is being put together to be made aware of their process. The Committee is looking forward to a good audit.

PRESIDENT'S REPORTS TO BOARD

Generation Project Report:

President McCullar reported that all assets are fully available. He stated that the demand for energy was substantially down which had an impact on our dispatch rate for generation. Part of that is attributable to the mild weather that occurred but there is also some component to solar penetration and the installation of other distributed energy resources or just the general economy not seeing rapid growth in demand for electricity. We see this as a trend that is developing. If you look at our forward demand and our electric consumption you will note that they are all trending down. Unless the economy picks up substantially or other factors come in to play, we expect this trend to continue over the next few years.

The Dover Solar and Laurel Hill Wind generators have performed as expected. Due to rainy days over the summer, we've seen lower solar outputs being set for that period. A tighter bandwidth of wind output was also observed for Laurel Hill over the summer when wind velocities are typically at their lowest as compared to winter months when they are typically at their highest.

Beasley 2017 dispatch is lower than 2016 due to Beasley being a peaking unit and 2016 temperatures and demand being greater than 2017. Fremont Energy Center is having a more typical year. Its performance has stayed within the 4 year range. Barring any forced outages, we can expect it to stay in that range for the remainder of the year and into 2018.

President McCullar reported that Beasley operated in an island mode on October 18th in support of Smyrna due to a DPL transmission outage that PJM and DPL said had to happen.

Ms. Schlichting reported that Beasley carried the town for approximately 14 hours. Communications did not go as well as they should have from DPL. DEMEC received notice less

than 24 hours prior to the event. We are working with DPL and its senior management on providing more timely communications that in turn would allow us adequate time to schedule operators, purchase fuel and coordinate with the Town of Smyrna. Recognition was given to the operators who performed the islanding without a glitch or blink of the lights.

President McCullar stated that while we certainly understand emergency situations, there must be as much lead notice as possible for proper planning to make ensure the unit is ready to run. Dropping the Town of Smyrna is unacceptable. Director Stulir supported and agreed.

Director Coleman asked about the value of generation. Ms. Schlichting responded that information is contained in the monthly reports. For October, the average daily cost to serve load would have been 4% higher if the Beasley and Fremont units didn't run and 11% higher for the month of September. Mr. McCullar added that the 11% savings is the delta between if we did nothing but buy from the market only versus the combination of buying from the market and generating in those hours when it's cheaper to do so.

Construction Project Status Report:

President McCullar reported on the following:

Middletown Substation Project – The Middletown Substation project continues to move forward. We continue to work on right-of-ways.

Seaford System Improvements – The project is fully on schedule and expect to be completed on time.

Financing on behalf of Members – We are going to go to market in January or February of 2018 with a bond issue that will take out the current temporary financing for the Middletown and Seaford projects. The market looks pretty good right now. We've been working with an investment group. Lou has been taking charge. We are making a rating agency trip on Monday after Thanksgiving to present to the three agencies regarding DEMEC and its projects. After that we'll be working on putting final pieces together to sell the bonds early in 2018. This will be the first bond issue done since 2011.

Economic Development Projects Report:

Middletown Technology Center – President McCullar noted that there are no new developments.

Milford Bay Health Hospital – Continues to move along. Director Norenberg reported that the electric service agreement should be on the December or January agenda of Milford City Council.

Chemours – Director Coleman reported that Chemours is looking to develop in the Star Campus.

Legislative Status Report:

HB-189 Pole Attachments – Ms. Schlichting reported that she received the draft ordinance from DEMEC's legal counsel and that it will be sent out to the members shortly. The members were

advised to have their solicitors review the draft to ensure it fits appropriately into their respective ordinances. We will continue to monitor this issue and expect the members' ordinances will be adjusted along the way.

Offshore Wind Working Group – Mr. Lynch reported that the group's plan is to have their work presented to the Governor in a couple weeks. The group is looking for recommendations of approval for the project; however, the high costs seem to be the major barrier.

Proposed RPS Increased Mandates – Ms. Schlichting reported that while no amendments have been submitted, we expect there will be amendments submitted to increase the state RPS. The Maryland, Delaware, Virginia Solar Industries Association with other coalition partners are leading campaigns to raise the renewable standards to 50% in Maryland and Delaware and are advocating to increase the solar carve out to 14.5% in Maryland and 8.5% in Delaware by 2032. We expect amending legislation to be introduced in January of 2018. We can also expect the group to offer language to close Delaware's borders to out-of-state solar similar to Pennsylvania legislation that passed in October. These changes would likely result in higher SREC costs. Ms. Schlichting added that the plan to increase renewables and solar was likely the reason our net metering legislation wasn't going to be brought forward in 2017. As soon as we receive their proposed amendments, we will forward them to the board. We will also be looking to the board to get an idea of what type of feedback we should provide. It was asked if we knew the costs associated with these proposed amendments. Ms. Schlichting stated there were individuals working on an analysis of that now.

Mr. Lincoln Willis added that at the Offshore Wind Working Group, there was talk about Delaware being 100% renewable. He added that he will keep watch for more developments.

2018 Budget Presentation -

Mr. McCullar stated the overview is that we are clearly seeing a reduction in the demand for electricity across all our members' systems so we have lowered the projection of anticipated MWhs delivered by about 6%. The positive side is that the price of energy, whether from our own assets due to the lower cost of fuel or from our market purchases, has declined. We're dropping our energy-only number by almost 11%. That's a big reduction in our largest cost category. Energy represents slightly over 50% of our total power supply costs. We're seeing capacity costs going up in the coming year. As you know, it's a three-year auction process conducted every year, and it goes up and down as you've seen. The 2018 period reflects a higher capacity cost but in 2019 we start to see it go back down. The other categories are holding relatively steady; however, transmission service continues to go up at a pretty significant rate. In 2018, we're seeing a relatively flat level due to tariff changes.

Chairwoman Slatcher asked if they were to approve the budget as presented, would it include changing the target of the RSR. President McCullar stated that it is not in the budget. We will likely achieve the target of \$22 million in 2018 but when we talk to the rating agencies, their big ask is to have 90 days operating cash on hand. So what we're recommending, if the board is agreeable, is to raise our future cash target to \$30 million. We're not asking that it be achieved in the 2018 budget, but that we work to reach that target. Chairwoman Slatcher said she's seen that in the rating agencies reports before that they like to see 90 days of reserves. Having the 90 days of reserves helps us get a better rating.

Alternate Director Del Grande stated that since we are depending on the sale of it, perhaps we should consider having some type of disaster fund or reserves especially in light of Hurricane Irma and Maria this fall. Having funds set aside could help us get our systems back up and running faster. President McCullar stated it's a conversation we need to keep having. We'd have to set a target.

It was asked about how the \$0.90 for energy efficiency was going to be handled. President McCullar stated that the board has the authority to decide how to handle it, but the budget proposal was to refund the \$0.90 pending decisions on timing of the energy efficiency program. Director Patone asked, it does have an impact on the budget though, right? President McCullar stated that yes, what the board decides to do will have an impact on the budget. He stated the board could set it aside, they could hold on to it until they're ready to go, or they could refund it. Another option the board has is to refund the money now and then when we decide to do energy efficiency, fund it out of the energy line item and treat it as part of the power supply portfolio. We have assets that generate electricity, market purchases that supply electricity and energy efficiency is also a supply component. It's a negative supply component. It eliminates the requirement for DEMEC to deliver that next MWh of energy. Mr. McCullar reported that his recommendation to the board is that we roll it into the portfolio and have a contract and pay for it like we do our other contracts. It would be rolled into the wholesale rate instead of trying to treat it as a separate project.

President McCullar asked if the board agrees with the next target of which would raise the target of \$22 million to \$30 million. We will not set an absolute date but it gives us a target to move towards. Upon motion by MSC of New Castle, second by Milford, and unanimous approval without objection, the cash-on-hand target increase to \$30 million was approved.

President McCullar reported that we had five members who wanted to participate in the energy efficiency program and others that were still considering it. Subsequently, Lewes came forth and withdrew its request to participate. Lewes cited its desire to let the Delaware Sustainable Electric Utility (SEU) program run. They felt that could give the benefits they needed without actually putting additional money into the program. Lewes confirmed that was correct. Middletown is trying to decide. The board could decide to have different rates where those who are not participating would not be contributing the \$0.90. They board could also decide to roll the \$0.90 into the energy supply portfolio and have it as part of the wholesale rate and treat it like we're not building a generator but building a negative generator to benefit the entire group. The president stated he wanted to have a conversation with the board to see how it felt. He also stated the other option is to do nothing.

Ms. Schlichting stated the she sat on the state's energy efficiency working group starting back in 2009. Back then an unrealistic target of 15% was set. We now are being asked to participate with realistic targets. The cost to do nothing could be more expensive than the cost of participating in energy efficiency. We've passed a board resolution that stated the board supported energy efficiency. In the past the board has been an all for one and one for all. If we do nothing I'm not confident that we won't be made to participate at some level. The level of participation we are recommending is the same as the Delaware Electric Cooperative (DEC) and comparable to DPL. The SEU program referenced is open to all Delawareans; however, about 39% of the funds have been going toward administrative costs, not all of the funds go toward electric savings and only about 44% went toward the electric sector. Most were only for audits that didn't result in any type

of efficiency upgrades. Any efficiency savings that the SEU captures will go toward their credit. The municipalities will not be able to count them toward energy efficiency goals.

President McCullar stated that when it comes to the SEU we are paying into it and it's easy to see Lewes's logic, as it is a state program with a lot of similarities. DEMEC did provide a report to the members that compared programs and there are some similar point and there are some things that our program would be doing that the SEU won't be doing. One of the more important things is that the SEU will decide what the programs are versus you tailoring your own program. We could wait for a year and see what they will do while we advertise and direct our customers to their program and come back with the results. We're not recommending that but it is an option.

Mr. Lynch stated that the SEU has been working with the individual members to get information out about their programs. Director Norenberg, of Milford, said that speaking as a consumer, one of the frustrations he's had is regarding the paperwork to access the program and the rebates and that there aren't local contractors to do the work.

Ms. Schlichting said that staff has put a lot of time into finding the most economical and cost effective program and what we've presented really is. It's up to the board to decide if they go forward with it.

Director Mary Ellen DeBenedictis asked if it's mandatory. Ms. Schlichting replied that it is not mandatory now but it could become mandatory and we might not like the percentage.

President McCullar stated that the bottom line is that there has to be value seen by our members. If we don't see value in it then why would we do it?

Discussion was had that it was difficult for some individuals to understand that the costs of the program would be offset by saving in other portfolio line items and that it really does make sense to put it into the wholesale costs. President McCullar repeated that if our regulatory groups don't see value in it then why would we do it?

Director Patone stated that part of the MSC of New Castle reasoning to do it was to remain competitive in communities that are participating.

Eric Norenberg stated that he worked with Efficient Smart and he knows the benefits and advantages of this program. He's not sure that DEMEC has the staff time to manage an energy efficiency program. Director Stulir stated that Smyrna's customers may want it. Director Patone noted that it's a good tool to have to be able to offer it to their customers.

President McCullar advised that he would direct staff to go back to the vendor to see if they can still offer the program with a lower subscription level that is would be much smaller with four members. Also we will go back to the SEU and work with them to provide programs to our customers and strongly advertise to our customer base.

The board discussed what to do with the money collected to date in anticipation of participating in an energy efficiency program. Instead of taking the funds out of the cash reserves, it was stated that it would be good to leave the funds in the RSR to help meet the new cash on hand target.

Upon motion made by Newark, and seconded by Milford, to apply the money collected for the energy efficiency program during 2017 to the RSR to help meet the new RSR target, the motion carried unanimously.

The board discussed other parts of the budget which included one new position to meet NERC requirements. The personnel budget will be covered in more detail during executive session.

Alternate Del Grande asked if the other members were interested in having First State Community Action come to their town halls and if so, does it make sense for DEMEC to pay those costs. It was decided that DEMEC will bring the group in to present to the board and then we can decide from there.

Utility Best Practices Review:

President McCullar reported that we reviewed this last year and he put it back on the agenda to gauge the members' interest. Due to the timing of ongoing member infrastructure projects, it was decided to check back with the board in another year.

Training / Education:

Ms. Schlichting reported that there are many training opportunities being presented. Two main programs that have several sessions are the Key Accounts Program and the Customer Service Program. As survey for dates go out, members are encouraged to respond promptly as the dates are only being held on our behalf for a short amount of time. We are working on scheduling a PJM101 session which will be a full day class, good for board members, councils and involved staff. Continuing education and webinars are available upon request.

Ms. Schlichting stated that she's been forwarding the mutual aid requests for Puerto Rico and Virgin Islands. Please contact her for additional information.

Holiday Demonstration Display tables are going up and DEMEC will be on local radio stations as last year promoting energy efficiency.

Ms. Contant, Communication Specialist, reported that DEMEC will be in the Delaware Business Magazine, our holiday LED Lights letter to the editor was published. We have LED light coupons going out too. Our branding and logo is getting out there. We're a sponsor of Winter Wonder Fest in Lewes and will be doing Operation Christmas Wish at the Middletown WalMart.

We have an opportunity to do job shadowing for Junior Achievement students. More will be forthcoming as we get additional information.

Green Energy Program Status Report:

Scott Lynch, Energy Services Manager, ask member to let him know of any potential solar sites that they can recommend for evaluation.

BUSINESS FROM THE FLOOR

Mary Ellen reported that Gary Stulir had officially been appointed Smyrna Town Manager.

Costs to use or rent out the back training room were discussed. The question was asked if we would be opening ourselves up to other liabilities. The challenge will be not to compromise other security regulations. Staff will look into it.

EXECUTIVE SESSION

The Board went into executive session at 12:28 pm upon motion by Clayton, seconded by Municipal Service Commission to discuss the following:

- a. To discuss strategic business and commercial generation operations, dispatch, negotiations and planning.

The Board ended the executive session and returned to regular session at 12:42 pm.

Upon motion by Milford, seconded by MSC of New Castle and unanimous approval without objection, the 2018 budget, with amendments as stated, and the employee budget were approved.

NEXT MEETING DATES

The following meeting dates were set:

Tuesday, December 5, 2017 – 9:00 am

Tuesday, January 16, 2018 – 9:00 am

Tuesday, February 20, 2018 – 9:00 am

ADJOURNMENT

Upon motion by Clayton, seconded by Smyrna, and unanimous approval, the Board Meeting adjourned at 12:44 pm.