

DELAWARE MUNICIPAL ELECTRIC CORPORATION
Regular Finance Committee Meeting
November 30, 2020
Smyrna, Delaware

A meeting of the Finance Committee of the Board of Directors of the Delaware Municipal Electric Corporation was held on November 30, 2020 via Zoom.

The meeting was called to order at 10:00 a.m.

The following roll call was presented:

Committee Present:

Pamela Patone, Chair
MSC of New Castle, General Manager/Secretary
Tyler Reynolds
Town of Middletown, Finance Manager
David Del Grande
City of Newark, Finance Director

DEMEC Staff Present:

Patrick McCullar, President & CEO
Kimberly Schlichting, COO-SVP Power Supply & Operations
Scott Lynch, VP-Asset Development
Stephanie Dove, Director of Accounting and Settlements
Charles Santo, Accounting Analyst
Jennifer Coulbourne, IT System Administrator

Special Guests: None.

APPROVAL OF MINUTES – August 18, 2020

Upon motion by Mr. DelGrande and second by Mr. Reynolds, the August 18, 2020 Regular Finance Committee meeting minutes and the Executive Session of the Finance Committee minutes were approved by the Committee.

FOLLOW UP ON ACTION ITEMS

MRPS Review

Mr. Lynch gave an overview of the calculations of the MRPS report that was presented to the board in November. Mr. Lynch provided explanation of cost cap provisions and board approved schedules and associated costs to follow the approved schedule. Additionally, discussion was had on the methodology to retire the RECS/SRECS.

Investment Services RFP

Ms. Dove indicated that the Draft Investment Policy has been given to the committee for comment and any RFP will follow once a policy has been adopted. The item will stay on the agenda for future discussion.

The Finance Committee is an advisory-only committee of the DEMEC Board of Directors and has no power to finally approve or order any action. The power to act rests exclusively with the DEMEC Board of Directors.

Review of Reserves/Ratings

Mr. McCullar discussed the possibility of a policy surrounding cash reserve targets, as was also discussed in the November board meeting with the board. Mr. McCullar explained why building the cash reserves would be favorable to the rating agencies reviews but indicated that it should be set based on DEMEC's needs. Mr. DelGrande recommended that there should be more than 60 days cash reserves, but it should be built gradually. Mr. DelGrande also noted that DEMEC's cash reserves may need to be larger to compensate for some of the member's ratings. Ms. Patone confirmed with Mr. McCullar that his budget, as presented, would fund additional reserves. Mr. Reynolds noted that the conversation should be ongoing given the current environment. Ms. Schlichting noted that the 2020 Hurricane season surpassed 2005 with over 30 named storms and there is concern for our member's mutual aid in the event of a direct storm hit. Mr. DelGrande recommended that DEMEC undergo a rate study to confirm DEMEC is recovering its fixed costs. The Committee recommends that the budgeted rate stabilization reserve funding should be unchanged from the budgeted rate as presented in Mr. McCullar's 2021 budget. The Committee requested a pros and cons list from DEMEC staff regarding the DEMEC rates to assist in a rate study discussion and staff is to advise if other Joint Action Agencies undergo rate studies.

AUDIT

Ms. Dove reported that preliminary fieldwork has begun and is on target, and the auditors have sent the final fieldwork request. The audit calendar has been sent to the Committee. Mr. DelGrande asked if the remote work on the audit is more or less work for DEMEC staff. Ms. Dove indicated that the workload is not more or less, it is just different.

2021 BUDGET

The Committee asked additional questions related to the responses provided by staff to the Committee's previous questions. The Committee directed the following changes be made to the Components of Power Supply Budget (Page 15):

1. Use the budgeted mWhs for the Beasley Participants only (excluding Lewes mWh) for the Beasley Generation Cost/Credit section only.
2. Divide the Beasley Generation Credit line item into two components: 1) Beasley Generation Distribution Credit and 2) Beasley Generation Reserve Credit.

Upon motion by Mr. DelGrande and seconded by Mr. Reynolds, the Committee recommends approving the 2021 budget as originally presented by the President with the above changes.

ACCOUNTING POLICIES & PROCEDURES

Purchasing Policy

No update.

Investment Policy

A draft Investment Policy was presented to the Committee by DEMEC staff. Ms. Patone asked the difference between restricted and unrestricted funds and does DEMEC have restricted funds? Ms. Dove indicated that DEMEC does have restricted funds that are restricted by bond covenant. Ms. Patone requested to add a line in the policy to note that restricted funds have their own requirements. The Committee noted

that they needed more time to review the policy and requested that it be discussed in the February meeting. The Committee requested that the policy be sent to the auditors for review and Ms. Dove indicated she would send the policy to Baker Tilly as it was her intention to send to Baker Tilly but not before the Committee saw it. Ms. Dove also noted that she has spoken to the Investment bank to let them know that the policy was forthcoming.

REVIEW OF FINANCIAL REPORTS

3Q 2020

Ms. Dove provided an overview of the 3rd quarter financial statements for the Committee noting that DEMEC expects to reach the cash reserve target by year end, but this will depend on consumption in the 4th quarter. Ms. Dove noted that the total income for the year is down and part of this is by rate design but mostly this is down from market revenues and consumptions both being down for the year. Income and COGS are both down by relatively the same percentages. Ms. Dove believes that November and December consumptions will be down, and we need to continue to monitor and review the financials as we near year end.

BUSINESS FROM THE FLOOR

None.

EXECUTIVE SESSION

The Committee did not adjourn to executive session.

NEXT MEETING DATES

DEMEC staff will distribute calendar invites to the committee members for the upcoming meetings set for:

- a. Tuesday, February 16, 2021 at 9:00am
- b. Tuesday, May 18, 2021 at 9:00am
- c. Tuesday, August 17, 2021 at 9:00am

ADJOURNMENT

The Finance Committee adjourned at 11:09 am.