

DELAWARE MUNICIPAL ELECTRIC CORPORATION
REGULAR MEETING
Remotely Via Zoom
March 16, 2021

A meeting of the Board of Directors of the Delaware Municipal Electric Corporation was held Tuesday, the 16th day of March 2021 remotely via Zoom.

The meeting was called to order at 10:01 a.m. with Morris Deputy, Chair, presiding.

The following roll call was presented:

Present:

Morris Deputy, Board Chairman
Representing Middletown
Tyler Reynolds, Alternate
Representing Middletown
Charles Anderson, Director
Representing Seaford
June Merritt, Alternate
Representing Seaford
Mary Ellen DeBenedictis, Director
Representing Clayton
Jonathan Burnett, Alternate
Representing Clayton
Dave Del Grande, Alternate
Representing Newark
Darrin Gordon, Director
Representing Lewes BPW
Austin Calaman, Alternate
Representing Lewes BPW
Andrew Haines, Director
Representing Smyrna
Cassandra Young, Alternate
Representing Smyrna
Pam Patone, Director
Representing the MSC of New Castle
Dr. Roy Sippel, Alternate
Representing the MSC of New Castle
Patrick McCullar, President
Representing DEMEC

DEMEC Staff Attending: Kimberly Schlichting, COO/SVP Power Supply; Heather Contant, Director of Media Relations & Communications; Jennifer Coulbourne, IT System Administrator; Stephanie Dove, Director of Accounting and Settlements; Steve Siok, Director of Beasley Plant Operations & Compliance, Kendra Friel, Training and Events Coordinator; Emily Greene,

Compliance Administrator; Scott Lynch, VP Asset Development; Charles Santo, Accounting Analyst

Guests and Attendees: Max Walton, Attorney, Connelly Gallagher; Lincoln Willis, Principal, the Willis Group

APPROVAL OF MINUTES

The minutes of the following meeting was presenting for approval:

1. Minutes of February 16, 2021

Upon motion made by Clayton, to approve the February 16th, 2021 minutes, seconded by Smyrna, the motion passed unanimously.

TREASURER'S REPORT

Monthly Financial Report – January 2021 -

Mr. Patrick McCullar, President and CEO, stated that the report shows no significant impact from cold weather temperatures and costs are as expected.

Upon motion made by New Castle to approve the January 2021 Financial Report, seconded by Newark, the motion passed unanimously.

APPOINTMENTS/ELECTIONS

None.

PRESENTATIONS

2011 Beasley Refunding Bonds Pricing Calculations -

Mr. McCullar presented pricing calculations for the 2011 Beasley Refunding Bonds. A discussion on interest rates and pricing schedules showed substantial savings are expected. A discussion was had. Questions were raised about the flexibility of the pricing and closing dates. Mr. McCullar assured the board he would be watching the market closely and will keep them apprised of any date changes.

2011 Beasley Refunding Options -

Ms. Pamela Patone, Director representing the MSC of New Castle and Chair of the Finance Committee, reported on the Finance Committee Meeting during which several options were reviewed for refunding of the bonds, four options presented by Barclays and one by DEMEC staff. Option 1 is traditional refunding, option 2 is a shorter term of 5 years, at a lower interest rate, and options 3 & 4 are similar to 1 & 2 but include the utilization of a significant portion of the current reserve to receive interest savings on the back end. After discussion, it was decided that utilizing reserves is not the option DEMEC should go with at this time. The optimal reserve amount for the Beasley units was discussed and it was decided that the amount needs to be better defined moving forward. Mr. McCullar put forth option 5. A discussion on what to do with the savings resulting from options 1 & 2 was also had. With the introduction of a fifth option, it was decided that staff would prepare an analysis and present it to the Finance Committee. Mr. McCullar stated

that today staff is seeking authorization from the board to allow staff and the Finance Committee to decide between the 3 options.

Mr. McCullar outlined option five. This option calls for moving forward with normal refunding of the bonds and allowing the Beasley Joint Owners to decide what is done with the savings after reviewing the analysis that staff will prepare. Mr. McCullar recommended that part of the savings be given back to the participants and part be put into additional reserves. When the call date on the new issue arrives, it can then be decided if the reserves are used to call remaining bonds and terminate the issue to save long interest. Alternately, the cash can be used to continue to manage risks and let bonds flow. Per Mr. McCullar, while we are seeing ultra-low interest rates now, they will begin to go up. The cash on hand can be invested when interest rates rise. This will help defease the bonds more quickly. If Congress restores the advanced refunding option for tax exempt bonds, as they are considering, this will allow DEMEC to call the bonds within 7 to 10 years for retirement. In short, option 5 is option 1 with a policy decision on the part of the Joint Owners to keep part of the savings on the balance sheet to allow for risk management and the optionality to retire longer bonds in the next few years.

Mr. Andrew Haines, Director representing Smyrna, had questions on hedging risk. He asked how the reserve amount is decided upon and why is more being proposed. Mr. McCullar explained that operational risk such as a major failure of a unit is of concern and is costly, generation dollars are also lost during the time a unit is down. Regulatory issues are also of concern. The capacity performance rules at PJM allow for significant penalties should they not be met. In addition, the new administration in Washington has already expressed the intention to increase regulation. Mr. McCullar recommends participants take the immediate savings and adopt a policy of how to use it in the future.

Ms. Patone shared that the Finance Committee kept in mind the need for repairs and reserves when they met, and they decided that drawing down the proposed amount of the reserve is not advisable. Taking advantage of the difference between options 1 and 2 would be ideal. With the option 5 being introduced, the committee felt it needed proper consideration. Mr. Haines asked if options 3 and 4 are no longer being considered. He asked Ms. Patone if the request of the committee today is for the board to authorize staff and the Finance Committee to decide which option to pursue before a policy is in place for what to do with the savings. He asked questions about the holding of the reserve monies instead of using them to increase the net present savings. Ms. Patone stated that the committee kept coming to this same issue. She reminded the members that the reserve in question is just the Beasley Joint Owners reserve. If the proposed amount is used now, nearly 50% of the reserve will be depleted. She stated that Ms. Schlichting made the committee aware of other expenses coming this year, in addition to the unexpected repairs currently being undertaken. These unknowns were taken into consideration when deciding if using this much of the reserve is prudent. She stated that timing may be part of the issue as well, and shared that the Finance Committee is considering the undertaking of a rate study to determine what our reserves should be. Mr. McCullar shared that with the pricing and closing quickly approaching, delay is discouraged as the interest rates may move against us further. For this reason, he is recommending that the board direct staff to pursue the current refinancing schedule and to provide authorization to the staff and Finance Committee between now and pricing to settle upon one of the presented options. He agreed that options 3 & 4 are not desirable at this time. He welcomed those who were not present

on the Finance Committee call to offer input. Mr. Haines stated that the proposed options will result in double hedging since the market and bond markets have an inverted relationship. If the bond market goes up, interest goes down and vice versa. Mr. McCullar explained that in Option #1 and #5, the company is capturing the low interest rates of today and fixing those rates over the duration of bonds. As the market goes up, under option #1 and #5 DEMEC will have cash to invest, and will benefit from the increased interest rates by investing the cash. With the bond rates fixed, as the market goes up there will be no negative impacts from market.

Mr. McCullar stated that staff intends to complete an analysis of option 5 verses options 1 and 2 and make it available by the end of the week. A meeting of the Finance Committee and the Joint Owners will need to be scheduled for both to give input on how DEMEC is to proceed. Mr. McCullar asked for a motion from the board directing staff to keep to the current refinancing schedule and give the Finance Committee and staff the option to make a decision on the duration of the bonds.

Mr. Anderson stated it was prudent to explore all options and asked what staff had originally planned to do with the savings. Mr. McCullar stated that the original plan was to choose option 1 and pass the savings on to the members in the form of lower costs. In option 5, participants will decide if savings will be added to the reserve and the members will come together at another meeting to decide what to do with the money. Mr. Deputy shared that he sees the value of option five and does not think that using the reserve as proposed sets a good precedent.

Upon motion made by Seaford to instruct staff to keep the current financing schedule and give the Finance Committee and staff the option to make the decision about the duration of the bonds, seconded by Clayton, the motion passed with one abstention from Lewes.

RESOLUTIONS

Ms. Kimberly Schlichting, COO/SVP Power Supply, presented Resolution 2021-2: A resolution authorizing the purchase of 2 parcels of land in the Smyrna Business Park known as 100 Artisan Drive, Smyrna, DE. This resolution is necessary to proceed with closing on the future DEMEC Lineworker Training Yard. She reviewed the status of the sale and stated that closing is slated for April 5th, 2021.

Upon motion made by Smyrna to approve Resolution 2021-2: A resolution authorizing the purchase of 2 parcels of land in the Smyrna Business Park known as 100 Artisan Drive, Smyrna, DE, seconded by Newark, the motion passed unanimously.

COMMITTEE REPORTS

Executive Committee -

Per Mr. Morris Deputy, Chair and Director representing Middletown, the Executive Committee has no report.

Finance Committee -

Ms. Patone reviewed the draft Investment Policy noting that it was developed by DEMEC staff with the cooperation of the Finance Committee. She stated that the committee recommends adoption of this policy. She also updated the board on the status of the current audit.

Upon motion made by Seaford to adopt the Investment Policy, seconded by New Castle, the motion passed unanimously.

PRESIDENT’S REPORT TO THE BOARD

Generation Projects Status-

Mr. McCullar reviewed the status of DEMEC assets and touched on the current lower spark spread in PJM, stating that staff is keeping an eye on the matter.

Construction Projects Status -

None.

Economic Development Projects-

None.

Legislative-

Ms. Schlichting reported the APPA Legislative Rally was held virtually this year on March 1st and 2nd. She reviewed four resolutions which were co-sponsored by DEMEC and which support public power’s local control. She also shared information on Senator Hansen’s recent Community Solar Stakeholder Meeting, at which Mr. McCullar was a panelist. A follow up meeting has been scheduled with the Senator next Monday to answer follow up questions.

AMI –

Per Mr. Scott Lynch, VP of Asset Development, all DEMEC members are in various stages of AMI deployment. Middletown is expected to receive most of their residential meters this month and commercial meter installation is set to begin in April.

RP3-

Mr. Lynch shared that applications for RP3 will open on May 1st.

Joint Training Yard –

An update on this project was given as part of the discussion on Resolution 2021-2.

NERC – Document 4010 - Designation of CIP Senior Manager

Ms. Schlichting gave an overview of the North American Electric Reliability Corporation (NERC) and DEMEC’s responsibilities as a registered entity. The Critical Infrastructure Protection (CIP) document presented designates Ms. Schlichting as the responsible authority for managing the implementation of and continued adherence to NERC standards, and names her as the CIP Senior Manager. This document requires board approval annually.

Upon motion made by New Castle to approve the designation of Ms. Schlichting as CIP Senior Manager, seconded by Smyrna, the motion passed unanimously.

Communications –

Ms. Schlichting provided the updated DEMEC Rate Stability Measures presentation to the board for their review and comments. This presentation was prepared by DEMEC staff at the request of the board for their use in presenting to their member boards/councils. It was designed to help members understand the difference between DEMEC and our member community electric utilities as compared to Texas utilities in ERCOT which were hit hard during the generational Winter Storm Uri. The document will be updated as the story unfolds and as lessons learned come to light. She noted that this may also be a good topic for the 2021 Joint Council Briefing, Ms. Patone agreed. Per Mr. McCullar, this document will be explored in greater detail at the next meeting.

Ms. Heather Contant, Director of Media Relations & Communications, reviewed the Charitable Donations and Sponsorships report, reminding members that while the look of events may have changed due to Covid-19 restrictions, there are many unique ways to use these funds to the advantage of each community. She offered to brainstorm with each community to explore ways of using the funds.

She also shared that while many utilities recognize different days as National Lineworker Appreciation Day, DEMEC will be adopting April 18th. This date is widely accepted as the national date.

EXECUTIVE SESSION

The Board went into executive session at 11:03 a.m. upon motion by Newark, seconded by Smyrna to discuss the following:

1. Strategic business and planning.

RETUN TO REGULAR SESSION

The Board ended executive session and returned to regular session at 11:17 a.m.

TRAINING & EDUCATION ACTIVITIES

Ms. Kendra Friel, Training & Events Coordinator, reported on recent and upcoming training opportunities and events, including a webinar on electric vehicle programs scheduled for March 31st. Ms. Friel is also working with APPA to bring in an informational session about their Demonstration of Energy & Efficiency Developments (DEED) program.

GREEN ENERGY & DEMAND RESPONSE PROGRAMS STATUS REPORT

Demand Response -

Mr. Lynch reported that June 1st starts a new program year, and he is waiting for Demand Response applications to be returned by a few members. He asked the board to let him know if any of their customers are interested in the program.

Discussion Regarding Retail Customer Renewable Energy Requests –

Mr. Lynch stated that DEMEC is beginning to hear that more member customers want to contract for 100% green energy supply. He reviewed his memo to start a conversation on how DEMEC

should respond to these customers. Mr. McCullar asked the members to review the document in preparation for a more structured discussion at the April meeting.

ENERGY EFFICIENCY PROGRAM STATUS REPORT

Energy Efficiency Advisory Council Update -

Ms. Emily Greene, Compliance Administrator, reported that the next meeting is scheduled for April.

Energy Efficiency Program Update -

Mr. Lynch reviewed the dashboard and status of the program. He noted that the original four contracts are being reviewed and will soon be in effect with a March 1, 2021 start date. He shared that Carolyn Dehorty, Efficiency Smart Account Manager, will be reaching out in the next few days to offer assistance.

Renewable Energy Taskforce Meeting Update -

Ms. Greene reported that community solar was discussed in the meeting on March 4, 2021 noting that a lot of the same points made at Senator Hansen's meeting were examined. A special meeting is expected to vote on the DPL SREC auction.

INFORMATION & TECHNOLOGY

Ms. Jennifer Coulbourne, IT System Administrator, shared that phase one of the server migration is done and new role-based security groups were implemented. Phase two is scheduled to begin this week. She shared resources with the municipal IT group about Microsoft exchange vulnerabilities. Ms. Coulbourne also reported that the camera installation at the Beasley Power Station is complete. Training for the operators will follow.

BUSINESS FROM THE FLOOR

Ms. Patone requested an update on the Cost-of-Service study RFP discussed at the last meeting. Mr. McCullar stated that DEMEC is waiting on one final proposal and will present to the Finance Committee once it is received.

Mr. Johnathan Burnett, Alternate representing Clayton, shared that Clayton began using a weather station. He offered to put members in touch with their vendor if they are interested, recommending the app "Weather STEM" to see details that are provided. Ms. Schlichting shared that staff has been considering installing a weather station at the Beasley Power Station since currently weather data from Wilmington is being used by PJM. Mr. Steve Siok, Director of Beasley Plant Operations and Compliance, will reach out to Mr. Burnett.

EXECUTIVE SESSION

The Board went into executive session at 11:41 a.m. upon motion by Smyrna, seconded by New Castle to discuss the following:

1. Personnel actions, strategic business and commercial generation operations, dispatch, negotiations, and planning.
2. To discuss land acquisition.

RETURN TO REGULAR SESSION

The Board ended executive session at 12:07 p.m. and returned to regular session. Staff was instructed to add Broadband Services to the next board meeting agenda.

SET NEXT MEETING DATES

The following meeting dates were set:

1. Tuesday, April 20, 2021 – 10:00 a.m.
2. Tuesday, Tuesday, May 18, 2021 – 10:00 a.m.
3. Tuesday, Tuesday, June 15, 2021 – 10:00 a.m.

ADJOURNMENT

Upon motion by New Castle, seconded by Lewes, the Board Meeting adjourned at 12:07 p.m.