

DELAWARE MUNICIPAL ELECTRIC CORPORATION
SPECIAL BOARD MEETING
DEMEC ADMINISTRATIVE BUILDING
SMYRNA, DELAWARE
May 3, 2022

A special meeting of the Board of Directors of the Delaware Municipal Electric Corporation was held Tuesday, the 3rd day of May 2022 at DEMEC's Administrative Building, Smyrna, Delaware.

The meeting was called to order at 9:05 a.m. with Morris Deputy, Chair, presiding. Mr. Deputy added Other Business to the agenda to inform the board of the upcoming Governance training on May 5, 2022.

The following roll call was presented:

Present:

Tyler Reynolds, Alternate
Representing Middletown
Andrew Haines, Director
Representing Smyrna
Tom Coleman, Vice Chair
Representing Newark
Dave Del Grande, Alternate
Representing Newark
Mark Whitfield, Director
Representing Milford
Scott Blomquist, Director
Representing the MSC of New Castle
Charles Anderson, Treasurer
Representing Seaford
June Merritt, Alternate
Representing Seaford
Austin Calaman, Director
Representing Lewes BPW
Kim Bellere, Alternate
Representing Lewes BPW
Kimberly Schlichting, President
Representing DEMEC

Absent:

Louis Vitola, Alternate
Representing Milford
Dr. Roy Sippel, Alternate
Representing the MSC of New Castle
Mary Ellen DeBenedictis, Secretary
Representing Clayton
JJ Burnett, Alternate
Representing Clayton

DEMEC Staff Attending: Heather Contant, Director of Government & Community Relations; Stephanie Dove, Chief Financial Officer & Interim COO

Guests and Attendees: Lauren DeLuca, Attorney, Connolly Gallagher

LAUREL HILL CONTRACT

Ms. Kimberly Schlichting, President and CEO, presented an opportunity to add Capacity Interconnection Rights (CIR) to the Laurel Hill PPA contract. This would allow DEMEC to enter Laurel Hill capacity on a MW-day basis into the PJM capacity auction. Prior to Laurel Hill receiving CIRs, Duke Energy, the counter party, must enter Laurel Hill into the PJM interconnection study to be studied for capacity. This study will be at a cost to DEMEC of approximately \$150K. Once Laurel Hill has a cleared capacity commitment, the resource will then have a day-ahead must offer comment. DEMEC will need to become the PJM market participant for Laurel Hill and will submit a daily day-ahead generation offer to PJM via ACES. The Laurel Hill resource will be transferred into a DEMEC PJM market participant account. The current bilateral schedule between Duke and DEMEC to transfer the real-time energy will go away, and all associated Laurel Hill costs and revenues will now come through the PJM invoice, much like Beasley.

A lengthy delay of 2 years in the PJM queue is expected to impact the timeline on returns. DEMEC would invest \$150,000 to apply for capacity with the potential to reach \$7M in returns over the course of the contract. Mr. Tom Coleman, Vice Chair and Director representing Newark, asked if there was money in the budget to cover the capacity application costs. Ms. Schlichting stated that there is currently room in the budget and asked that the board to be ready to approve at their May 10th board meeting, entering into an agreement with Duke Energy for Capacity and other revenue potentials including application for the \$150K interconnection study.

INDIAN RIVER RETIREMENT

Ms. Schlichting provided an update on potential impacts to DEMEC members relating to the retirement of Indian River Power Unit 4 and NRG's April 1, 2022, Reliability Must Run rate schedule with PJM that will impact transmission rates in the DPL zone. She informed the board that DEMEC members make up roughly 7-8% of the electric load in Delaware and would be liable for the same percentage of the Cost-of-Service Recovery Rate. The Reliability Must Run (RMR) filing stems from NRG announcing in June 2021 that they plan to deactivate Unit 4 as uneconomic. DEMEC's portion of the FERC approved cost-of-service rate (\$5.8M/month) and collected by PJM is expected to be \$460,000 per month minimum. Ms. Schlichting informed the board that ACES stated costs could be as much as double that amount after additional fees (investment amortization and fixed O&M costs) are considered.

Ms. Schlichting reminded the board of DEMEC's filing of a doc-less motion with FERC on Thursday, April 14, 2022, to preserve DEMEC's right to intervene in a hearing. She informed the board that DEMEC is looking to partner with other intervenor(s) in a joint pleading to add leverage to the protest and allow greater cost savings through cost sharing. DEMEC is anticipating additional costs for consultants and attorney fees during this process. Ms. Schlichting stated that there is a possibility for settlements in the fall as the result of a FERC hearing, however, she cautioned assuming that a settlement will be timely or substantial. She stated that DEMEC, on behalf of our members, will be required to start paying the cost-of-service rate June 1, 2022, and

it is expected to continue for at least 4.5 - five (5) years. She recommended the board review the information presented and be prepared to vote on a budget amendment at the next board meeting on Tuesday, May 10th.

Mr. Coleman asked if it is possible that the monthly rate could be less than \$460,000 if Indian River runs and we get a credit. Ms. Schlichting stated that is an unknown. Cost savings at best may only bring costs down from \$460,000 to \$400,000, still leaving members with a significant monthly rate.

Mr. Deputy mentioned the possibility of a settlement happening after the board votes to raise rates using current estimates. Mr. Coleman was interested in knowing Indian River's bid-in price to the energy market at PJM, wondering at what point Indian River becomes economical as energy prices continue to rise due to the cost of natural gas.

Ms. Schlichting stated that staff will be working with partners, attorneys, and consultants to get more details and prepare arguments for a FERC hearing. DEMEC will be looking at costs included in the Cost-of-Service Recovery Rate to make sure they are just and reasonable and do not include prior investments that cannot be included. She shared with the board that the Delaware Public Service Commission and Delaware Public Advocate have also intervened, and staff are staying in contact with them as information is shared. Ms. Schlichting also stated that when Senator Carper came to visit DEMEC on April 29th, staff was able to share details with the Senator and his staff on the U.S. Senate Environment and Public Works Committee.

Mr. Andrew Haines, Director representing Smyrna, asked if it was possible to use the Rate Stabilization Reserve (RSR) for the next few months, for members to have time to inform customers and see if any settlements occur and lower the rate impact. Ms. Schlichting cautioned using the RSR to alleviate costs upfront given the long term of the rate schedule and rising natural gas prices that will make it harder to maintain current RSR levels. Ms. Schlichting stated that staff recommends a budget amendment to cover attorney and consultant costs for the FERC hearing and increased wholesale rates starting June 1, 2022. She recommended that the board review the options presented, see how they would impact their customers back home and be prepared at the May 10th board meeting to discuss and decide how they want to proceed.

EXECUTIVE SESSION

The Board went into executive session at 9:23 a.m. upon motion by Newark, seconded by Lewes, asking the President and CEO to leave, to discuss the following:

1. To discuss personnel actions, strategic business and commercial generation operations, dispatch, negotiations, and planning.
 - i. Personnel Recommendation

The Board ended executive session and returned to regular session at 11:16 a.m.

RETURN TO REGULAR SESSION

The President & CEO, Ms. Schlichting, was asked to rejoin the meeting. She stated that she had personnel information to present during the Executive Session for board review and action at the May 10th board meeting.

POTENTIAL ACTION TO BE TAKEN AFTER EXECUTIVE SESSION

Town of Smyrna made a motion to endorse the strategy outlined in Executive Session, Newark seconded the motion. The motion was approved unanimously.

OTHER BUSINESS

This section was added to the agenda to remind the board that the governance training, as outlined in the board adopted strategic plan, was scheduled for May 5, 2022, at the DEMEC training facility.

SET NEXT MEETING DATES

The following meeting dates were set:

1. Tuesday, May 10, 2022 – 10:00 a.m.
2. Tuesday, June 21, 2022 – 10:00 a.m.
3. Tuesday, July 19, 2022 – 10:00 a.m.

ADJOURNMENT

Upon motion by New Castle, seconded by Newark, the Board Meeting adjourned at 11:19 a.m.