



20 | Annual 22 | Report

Values in Action

Delaware Municipal Electric Corporation

ABOUT DEMEC



Incorporated in 1979, the Delaware Municipal Electric Corporation, Inc. (DEMEC) is headquartered in Smyrna, DE, with 14 employees between its headquarters and generating facility.

DEMEC is the not-for-profit wholesale power supplier and services provider for eight (8) members, representing the communities of New Castle, Newark, Middletown, Smyrna, Clayton, Milford, Seaford, and Lewes. Each of these members owns and operates a local municipal electric distribution system. Collectively, these member utilities serve approximately 99,000 people to power their homes and businesses.

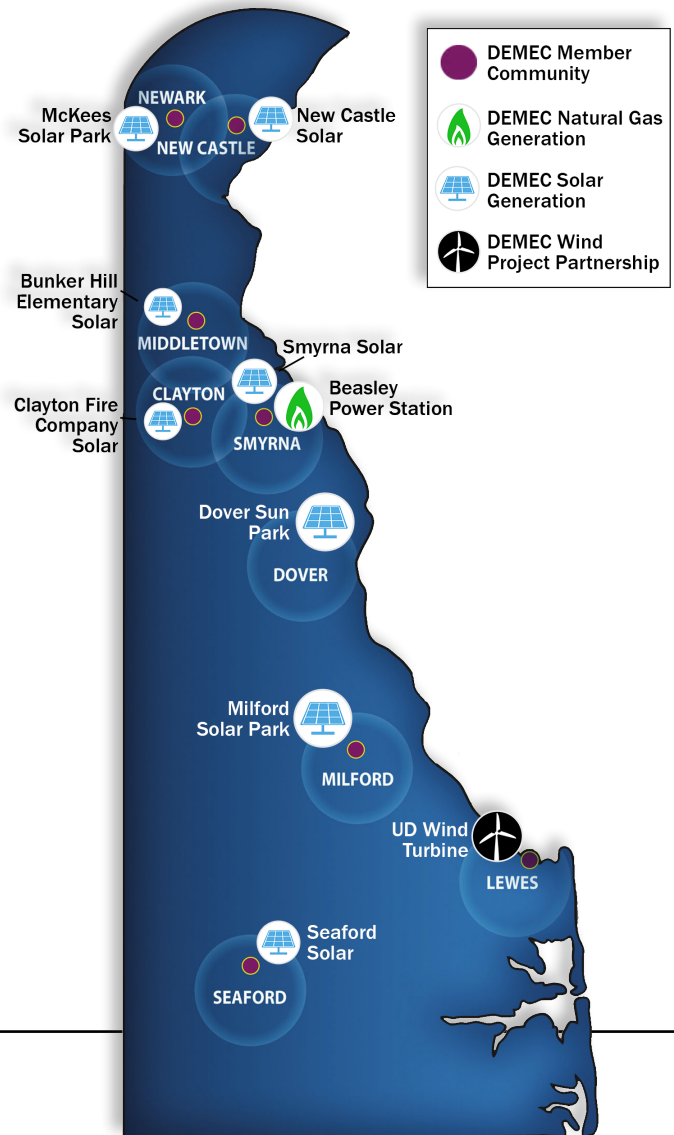
When DEMEC was formed 43 years ago, our member communities joined together under the belief that municipally-owned utilities would have greater opportunities to secure reliable and low-cost power supply for their customers if they worked together. Through joint action legislation, the Delaware General Assembly approved the formation of DEMEC as a political subdivision of the State. In partnership with DEMEC, our members secured generation assets and aggregated power supply sufficient to meet the needs of eight member utilities to help their communities thrive and prosper.

Together, we expanded service offerings to include additional services while still providing reliable and sustainable power supply to our member customers. Together, we advocate for legislation and regulations in protection and support of public power and municipal utilities. We work together to invest and plan for the future.

At the end of 2022, over half of DEMEC's member communities held American Public Power Association's (APPA) Reliable Public Power Provider (RP3) designation. In addition, member communities were subscribed to the eReliability Tracker program, earned APPA's excellence in safety and reliability awards, and provided their customers with enhanced service through investing in members' AMI programs.

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MESSAGE TO OUR Members



Kimberly Schlichting
President & CEO, DEMEC



Morris Deputy
Chair of the DEMEC Board

By any measure, 2022 was an extraordinarily dynamic year for Delaware Municipal Electric Corporation (DEMEC) and its members:

- The Russian invasion of Ukraine caused **natural gas prices to double overnight**, with reverberations that were felt from New Castle, Delaware, to Newcastle, England, and everywhere in between.
- The Federal Energy Regulatory Commission (FERC) handed down an **unfavorable cost allocation from the notice of closure by Indian River Power**, saddling DEMEC members and the rest of Delaware with costs that could total **half a billion dollars** over 4.5 years.
- Supply-chain headaches got worse for our members and for utilities across the U.S., who faced **skyrocketing costs and extended wait times** for distribution transformers and other essential equipment.
- At the end of the year, states throughout the Mid-Atlantic and Northeast were hard-hit by **Winter Storm Elliott**, threatening the stability of the electric grid and putting pressure on electric generators like DEMEC's Beasley Power Station to over-perform.

But DEMEC and its members worked closely through the year as we always have, by **acting as one, for the benefit of all**. Our shared sense of purpose was guided by the Board's adoption of four core values in 2021: "Member Focus, Operational Excellence, Organizational Culture, and Sustainability." We added "Education" to those values in 2022.

Our natural gas hedging policy, along with higher revenue from the Beasley Power Station, were critical last year in **managing wholesale power costs for the benefit of our members**. While all other Delaware electric utilities had to increase their rates due to natural gas prices, **DEMEC's rates remained unchanged**. If we hadn't been faced with additional costs mid-year due to the closure of Indian River Power, DEMEC's rates would not have increased.

Members eagerly took advantage of a greatly expanded range of professional development opportunities DEMEC offered in 2022. We're very pleased there was such high participation and satisfaction in both onsite and virtual learning last year. That trend looks to continue in 2023 as we construct the **DEMEC Joint Lineworker Training Yard** in Smyrna.

Market events stretched DEMEC and its members in 2022. To better respond to members' needs and the changing electric industry, we added staff, who are eagerly bringing their passions, skill sets, and fresh perspectives to their work here at DEMEC.

We titled this annual report "**Values in Action**" because we believe values are only words on a piece of paper until they become changed behaviors. Action is where the rubber hits the road. In this report, we asked city, town, and general managers from all eight of our member communities how these values were being put into action to create increased value for them and their customers.

Delivering competitive, reliable, and sustainable power while supporting our member communities' success and relevance is the core of our mission. That's the foundational principle of public power and joint action agencies.

A handwritten signature in blue ink, appearing to read "Morris Deputy".

A handwritten signature in blue ink, appearing to read "Kimberly Schlichting".

DEMEC BOARD OF DIRECTORS & Management

DEMEC is governed by an eight-member Board of Directors, with one Director from each member municipality. The responsibility for day-to-day operations of the agency resides with the President, appointed by the Board. The President directs the efforts of staff members and various contractual relationships in place to meet the service requirements and policies of the Board, and sits on the Board as an ex-officio member.

Morris Deputy

Chair
Town of Middletown

Charles Anderson

Treasurer
City of Seaford

Austin Calaman

Director
Lewes BPW

Tom Coleman

Vice Chair
City of Newark

Mark Whitfield

Director
City of Milford

Scott Blomquist

Director
MSC of the City of New Castle

Mary DeBenedictis

Secretary
Town of Clayton

Sheldon Hudson

Director
Town of Smyrna

Kimberly Schlichting

President & CEO
DEMEC

Executive Management

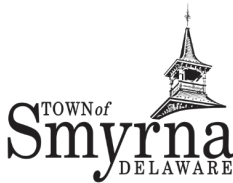
Kimberly Schlichting

President & CEO

Finance Management

Stephanie Dove

Vice President & CFO



CORE VALUE: Organizational Culture

When technologies change and external markets shift, organizations need to adapt by changing the way they do business.

During 2022, Kimberly Schlichting's first full year as president and CEO, she guided many changes to the way DEMEC does business so it could better serve its members and operate more effectively in a dynamic market. The organization entered 2023 stronger and reinvigorated, with a clearer sense of purpose, guided by its Vision, Mission, and Core Values adopted by the Board.

DEMEC's Mission, or its reason to exist, is to support our members' success and relevance. We do that by delivering excellence in competitive, reliable, sustainable power supply and innovative services, which advance our community-owned member utilities.

We were better able to deliver on our Mission and Vision because our actions were guided by our Core Values. These values shaped our thinking and changed the way DEMEC did business in 2022, and they will continue guiding the organization in 2023 and beyond.

But **not all member needs are alike**. Throughout 2022, DEMEC staff had an increased and improved level of interaction with the staff of its members. We learned more about their unique needs and goals, and we stood side by side with them to explore market opportunities, sustainability programs, electric vehicles, AMI, and battery storage.

An organization's culture must be actively managed. Left untended, it will drift. During 2022, we **reshaped DEMEC's culture to deliver more value to our members** while better preparing us to navigate the increasingly choppy waters of the electric industry.

Morris Deputy, DEMEC Board Chair and Middletown's town manager, said this about organizational culture: "It's a climate, the way work gets done, the values and expectations that guide behavior. It permeates everything an organization does."

He has high praise for the way Kimberly has reshaped and managed DEMEC's culture: "She has been highly involved in **creating a positive organizational culture**. Kimberly practices collaboration, good listening skills and mutual respect. She treats all employees well, and holds them accountable."

He continued: "Kimberly has applied DEMEC's expertise to meet members' needs in a win-win, team-based approach. Her approach to building and managing DEMEC's organizational culture has really helped the organization be **more responsive to the needs of members**. Also, it has helped the company become better positioned in today's more dynamic electricity business."

Culture often shows itself in the little things, Morris continued: "As Chair, I receive a draft agenda before each Board meeting. Board meetings now have more two-way conversation and debate, with members being asked for their input. **Staff is empowered** and there has been a dramatic expansion of professional development for staff, Board members, and the staff of members."

**Our Vision is aspirational and
self-renewing:**

**Be a leading joint-action agency
providing competitive, reliable, and
sustainable power supply while pursuing
opportunities that increase the overall
value to DEMEC's membership.**

We dramatically increased the amount of training provided to DEMEC and members' staff to 209 hours in 2022, a **118% increase over 2021**.

Kimberly agreed that 2022 was an exciting year: "It stretched me and the organization. We laid the foundations for future growth by investing in our staff so they could better meet the needs of our members. It wasn't always easy, but in the end, it was a very rewarding year because we became **better aligned to meet the market's challenges.**"

She continued: "I strongly believe that a house divided cannot stand. Last year we took important steps in learning to collaborate and build common goals. **Together, we are stronger**—a fundamental principle of community-owned utilities and joint-action agencies."

She highlighted the specific elements of DEMEC's organizational culture core value that were central to these changes:

- Operate in a transparent environment, with honesty and integrity
- Treat others with mutual respect and value their contributions
- Promote a diverse and inclusive workforce.



Main Street, Middletown, Delaware

CORE VALUE: Operational Excellence

Scott Blomquist, general manager of the Municipal Services Commission (MSC) of the City of New Castle, has first-hand experience with operational excellence. For years, he made his living climbing utility poles as an lineworker for the MSC. For him, operational excellence means having the right equipment and tools at the right time so he can do the job right.



Their hard work saved our customers a bundle last year when gas prices, and electricity prices, went haywire.

Scott Blomquist, General Manager, MSC of New Castle



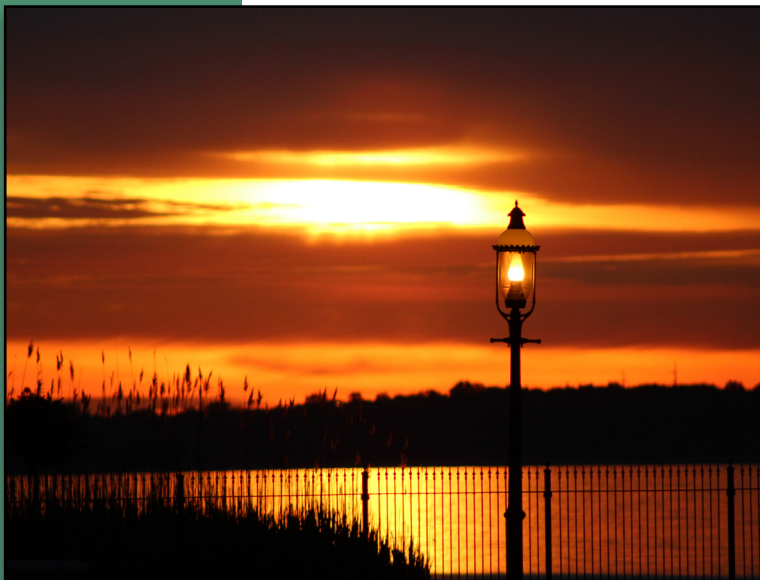
"I'm glad that DEMEC adopted operational excellence as a core value," he said. "It's one of those things that was mostly expected, but rarely stated explicitly. Now, all of us are better off knowing **operational excellence is part of the organization's DNA.**"

To Scott, organizations that are operationally excellent are timely and forward-thinking. "DEMEC certainly practices what it preaches when it comes to power contracting and gas hedging," he said. **"Their hard work saved our customers a bundle last year when gas prices, and electricity prices, went haywire."**

The MSC, along with other DEMEC members, worked hard in 2022 to prepare for the installation of advanced metering infrastructure (AMI).

AMI is a critical step in the pursuit of operational excellence. Advanced meters and next-generation infrastructure that supports those meters will enable the MSC's customer service representatives to provide fast and detailed information to customers who have questions about their electric usage.

Advanced meters could also provide more accurate price signals, pinpoint power outages, and support customers with electric vehicles.



New Castle, Delaware

Scott also sees operational excellence in the **new and varied training DEMEC provides** its members. He has taken courses on managing key accounts, operating an electrical distribution network, designing electric rates, and interacting with the public in a customer-facing position, just to name a few.

He's particularly fond of DEMEC's *"Tool & Truck Expo"* held each Fall in support of Public Power Week. "I love to get my hands on new tools and hear new information about safety. There are always new and improved ways to do something, and our employees really like to know how they can get better."

Ultimately, the MSC's customers benefit in many ways from DEMEC's focus on operational excellence: **shorter outages, increased efficiency, and better customer service.**

Austin Calaman's background in supply chain management makes him particularly well-suited to



2nd Street, Lewes, Delaware

see the value of operational excellence. The general manager of the Lewes Board of Public Works (BPW) believes operational excellence means the continued ability to grow, learn, and shift as your market changes.

“Our business rapidly is becoming a data business, and DEMEC is standing right alongside us. **We’re walking into the future together.**”

“The Federal Energy Regulatory Commission’s decision on Indian River Power in early 2022 really caught everyone off-guard, but **DEMEC quickly provided us with material that helped explain the issue to our customers.** It helped us tremendously.”

Austin is particularly complimentary of DEMEC’s assistance to the Lewes BPW and other members as they assess battery energy storage systems (BESS) and AMI.

“Our original BESS ambitions were between 10 megawatts (MW) and 20 MW of capacity, but the rapidly changing supply chain constraints and rising material costs for a project of that size and at that time made us take a step back. DEMEC staff worked with us and our contractor to develop a RFP and assess bids. A battery project is on the back burner right now, but we may revisit, potentially in conjunction with other DEMEC members, in the future.”

DEMEC staff’s help in investigating AMI, “surfaced insights into the customer experience we never would have considered, such as billing and payment options,” Austin enthused.

The Lewes BPW has only 20 employees, but Austin, a self-described sports enthusiast, said DEMEC extends their capabilities in the same way that boisterous football fans provide an advantage to the home team. “They’re like the 12th man at football stadiums — they give us a competitive edge.”

“

***They’re like the 12th man at football stadiums
— they give us a competitive edge.***

Austin Calaman, General Manager, Lewes BPW

”



CORE VALUE: Member Focus

Two years ago, for a variety of reasons, the City of Milford lost nearly all its lineworkers, which threatened to reduce electric reliability and lengthen customer outages, according to City Manager Mark Whitfield. DEMEC supported Milford, and its other members, by offering onsite classroom training for aspiring lineworkers and arranging for those junior lineworkers to receive expedited, advanced training out-of-state to accelerate their professional progression.

“That’s member focus,” Mark said. “It takes a tremendous amount of training to become a full-fledged journeyman lineworker, and DEMEC did everything it could to expedite the training of our new lineworkers.”

“**They spend more time asking us about our needs,** and I am delighted for that, too.”

Mark said DEMEC’s increased focus on the needs of its eight members’ community-owned electric utilities is also shown in other ways. “We serve a local healthcare facility that was very concerned — and vocal — about its electric bills. We were able to offer that customer a walk-through energy assessment of its facilities, and we found a lot of ways energy was being wasted. At a time when the main building was vacant, pumps in the basement were working around the clock for no good purpose. The noise was deafening!”

**“Our investment in DEMEC has
been returned 10-fold.”**

Mark Whitfield, City Manager, City of Milford

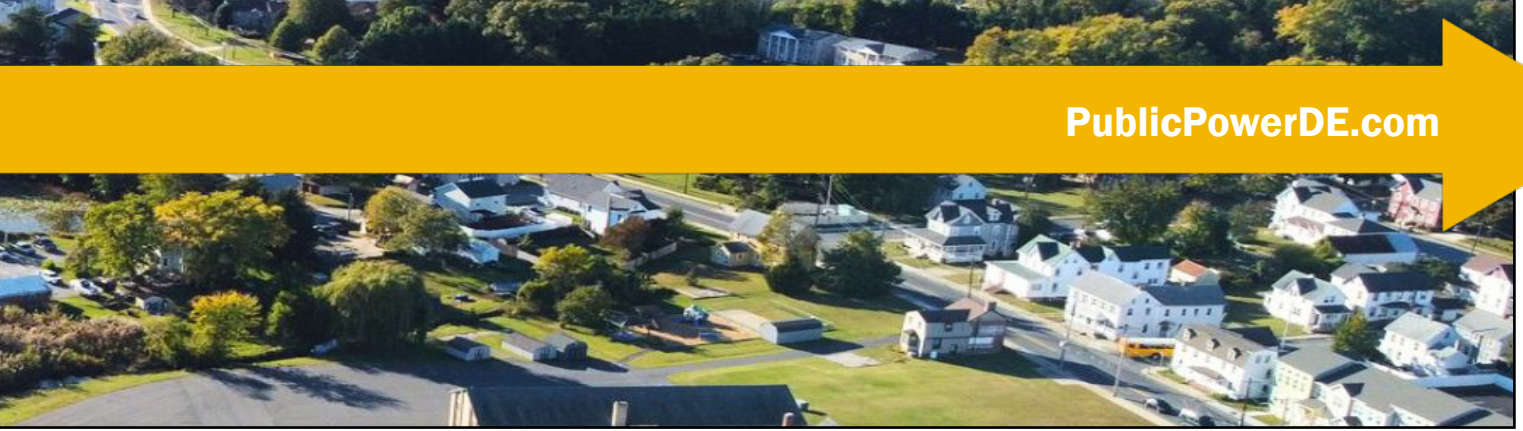
After DEMEC provided the customer with this no-cost, energy walk-through using its *Efficiency Smart* program, customized recommendations were provided so the **customer could reduce its unnecessary electric use and lower its bill**. Suddenly, an irate customer became one of Milford’s biggest boosters.

The *Efficiency Smart* energy assessment is available to residential customers, too. Mark recalled that a disaffected residential customer soon became a big advocate after using the energy-efficiency program. In 2022, DEMEC and its members were able to **save customers \$560,234, for lifetime savings of \$7.6 million, and reduce energy use by 4,661 megawatt-hours (MWh), equal to 643 homes’ electric use for one year**, through its *Efficiency Smart* program.

“Once upon a time, DEMEC was focused exclusively on procuring the lowest-cost power for its members,” recalled Mark, who has served on the DEMEC Board for about four years. “Back



Main Street, Smyrna, Delaware



Aerial View of Milford, Delaware

then, low-cost power was all we thought our customers wanted. But as their expectations changed, we had to change, and **DEMEC has flexed right alongside us.**

Sometimes that means providing customers with energy services. Other times, it means **working with members' customers to achieve their corporate climate-change goals.**

Milford's low electricity prices are helping to draw new residents and industrial customers to the community. With those new customers, new needs will emerge. But Mark isn't concerned. "Our investment in DEMEC has been returned 10-fold," he said. "The organization has helped us deliver superior value to our customers. It's a virtuous cycle."

Sheldon Hudson, town manager of Smyrna, agreed 100% with Mark's view. "I only joined the DEMEC Board in late 2022, but I was made to **feel welcome from day one.**"

From the on-boarding he received as a director to his interactions with DEMEC staff, Sheldon said he was impressed, "from the front door to the boardroom." He added that "electricity is a new thing for me, and Kimberly and the staff really **go the extra mile to listen to members' concerns and provide localized answers.**"

On a percentage basis, Smyrna is one of the fastest-growing municipalities in Delaware. Sheldon said the DEMEC staff has worked with Smyrna staff to ensure that the utility has enough transformers, poles, lines, and other equipment to meet the needs of a growing community.

Sheldon, who has a passion for Native American culture, is particularly excited that Smyrna and DEMEC have **participated in "Light Up Navajo" to bring electricity to families** in the Navajo Nation located in New Mexico, Arizona, and Utah.

"Helping each other is what Public Power is all about. I'm really proud to be a part of Smyrna and DEMEC."

Sheldon Hudson, Town Manager, Town of Smyrna

That DEMEC and Smyrna would send lineworkers 2,000 miles away to bring basic electric service to an area with limited amenities tells Sheldon all he needs to know about DEMEC's empathy, kindness, and service. "People would be shocked to learn that most residents of the Navajo Nation don't have basic electric, water, or phone service. **Helping each other is what public power is all about.** I'm really proud to be a part of Smyrna and DEMEC."

DEMEC

BY THE **NUMBERS**

8

Number of
DEMEC
Members



Number of trainings offered
by DEMEC.



45

14



Number of
DEMEC Employees

48

Thousands
of customers
served by
DEMEC
members.



71



MW of wind
energy in which
DEMEC has invested
since 2012.



43

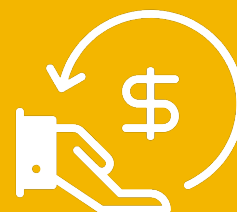
Number of years
DEMEC has
been incorporated.

Percent of DEMEC's power
supply that is low to no
emissions.

90



4.9



Millions of dollars of
customer incentives awarded by DEMEC's
demand response program since 2018.

We had a year to remember in 2022. Here are **key facts** about DEMEC and its members.



312

MW of non-coincident peak
for DEMEC Members.

9.9



Millions of dollars distributed to DEMEC
members communities.



1,427

Gigawatt hours (GWh) delivered
to DEMEC members.

28.7



MW of solar owned or supported
by DEMEC and its members.

20



Consecutive years that DEMEC's bonds
have received an "A" rating or better.

209



Millions of dollars in revenue from
member sales and generation.

- **S&P Global Ratings** affirmed DEMEC's A rating due to the, "stable nature of the project's operations," and, "predictable cash flow."
- **Moody's Investors Services** reaffirmed DEMEC's A1 rating as a reflection of, "Beasley's demonstrated strong financial performance," and anticipation for, "continued healthy operations and financial performance of both DEMEC and Beasley."

CORE VALUE: Sustainability

“Sustainability” means different things to different people. To some, sustainability means building wind or solar generation. To others, it means helping customers use energy more wisely, which reduces emissions.

DEMEC and its members have been at the forefront of sustainability in Delaware: We have invested in approximately 100 megawatts (MW) of renewable energy through wind and solar generation since 2010. Renewable energy accounts for over 25% of our power supply portfolio, a number that will keep growing to meet Delaware’s Renewable Energy Standards of 40% renewable by 2035. On behalf of our members, we own 56% of the generation in our power supply, with the remaining amount purchased from the PJM market through various staggered contracts.

Currently, **90% of DEMEC’s power supply consists of low-to-no emissions.**

In our small state, the biggest carbon savings come from energy efficiency and small-scale renewable generation, such as community solar. Since 2018, DEMEC’s energy efficiency program has resulted in lifetime customer savings of \$18.4 million and energy savings of 160,870MWh, equal to **eliminating 126,137,014 pounds of coal burned.**

Since 2005, **DEMEC has reduced its carbon footprint over 50%** through a commitment to sustainable energy resources and energy reduction programs.

Our members are taking diverse approaches to becoming more sustainable, and we support them as they pursue their individual paths. Many are emphasizing energy efficiency rebates. Some are investigating battery energy storage systems. Others, like the City of Newark, are pursuing an aggressive zero-carbon goal.

Newark adopted a sustainability plan a few years back that aims to have renewables account for at least 30% of all electricity by 2025, 65% by 2035 and 100% as soon as possible, but by 2045 at the latest.

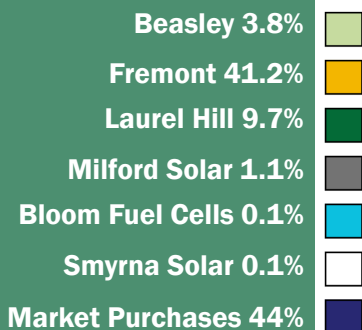
City Manager and DEMEC Board Vice Chair, Tom Coleman, noted that **DEMEC has supported Newark’s sustainability journey** by arranging for the purchase of renewable energy credits (RECs). Some years ago, the organization also arranged for the financing and construction of the McKees Solar Park at a city brownfield.

Having McKees built gave the city a lot of detailed insight into solar generation. Coleman shared that in 2022 the city expand the McKees Solar Park and added about 1MW of rooftop solar on municipal buildings.

Coleman said Newark is working with DEMEC to investigate various other sustainability initiatives to **facilitate wise energy use** and greater electric vehicle adoption. Battery energy storage and microgrids may also figure into the city’s sustainable future.

Newark is also working with DEMEC to finance a second distribution substation that would better

2022 Power Supply Mix



DEMEC has always been a good partner.

Tom Coleman, City Manager, City of Newark



serve power-sensitive manufacturing customers located in the University of Delaware's STAR (Science, Technology, and Advanced Research) Campus.

"DEMEC will be a critical partner in helping these and other sustainability projects in Newark get done," Coleman said. "DEMEC has always been a good partner, and if we have a special need, they help us out. It's great that the board adopted sustainability as a core value because different members have different needs when it comes to sustainability, but no matter how they pursue it, **they know they can count on DEMEC.**"

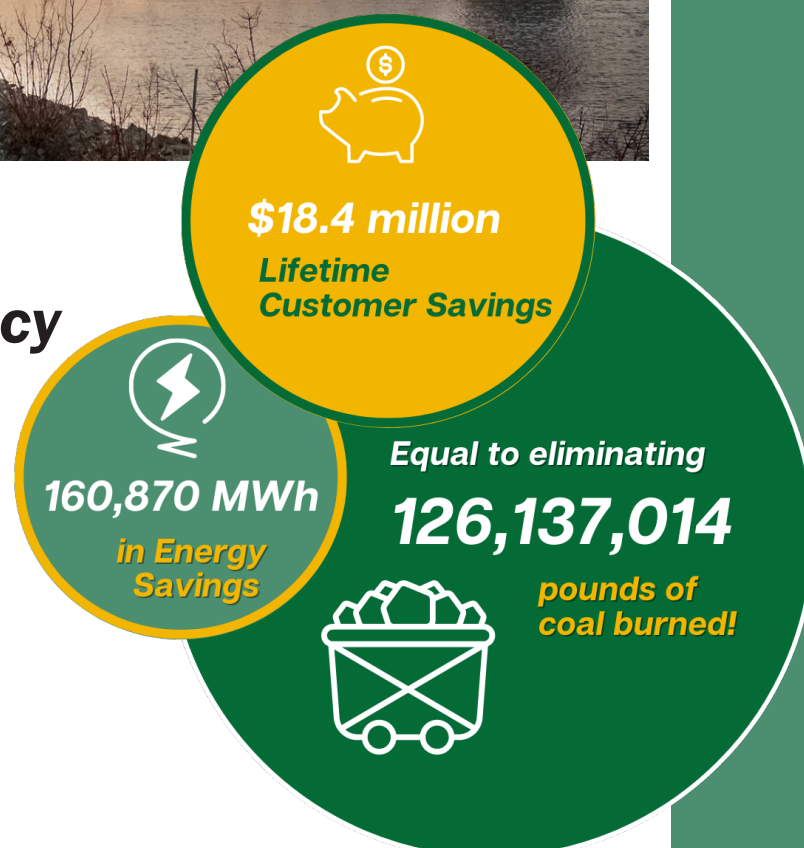
In the same way that DEMEC's members are pursuing sustainability, President & CEO Kimberly is working to build organizational resilience to make sure the organization will continue to thrive as the energy transition unfolds. "It all comes down to being around for the long haul," she said.

"Whether it's the lineworker classroom training we provided in 2022, or the Joint Lineworker Training Yard we plan to build in 2023, the energy transition will require a highly skilled workforce. **We aim to provide our members with the training they need to provide excellent value to their customers — however the customer defines excellent value.**"



Newark Reservoir, Newark, Delaware

DEMEC's
Energy Efficiency
Program
has resulted in



CORE VALUE: Education

As a core value, education is not a static concept with a defined result, such as attaining a degree or certification. Rather, it's more a willingness to acquire new skills and perspectives.

Charles Anderson, city manager of Seaford, is delighted that the organization adopted education as a core value. "These days, success depends on becoming a learning organization. That means **continuous professional and personal development**. The organization has really stepped up its game on that."

Charles said there are many ways that DEMEC is putting its educational core value into action, such as the dramatic **expansion of classroom training and plans to build a Joint Lineworker Training Yard** in 2023. In 2022, DEMEC partnered with TVPPA on an official apprentice and journeyman lineworker training program, holding its first three (3) trainings.

"Having our lineworkers take classes at **DEMEC saves us thousands of dollars per year** because we don't have to send our lineworkers out of state to receive classroom training. Those **savings will only get larger** when the lineworker yard is up and running in 2023. Again, our lineworkers can train locally and sleep in their own beds at night."

As a core value, education extends beyond the members to include customers.

Charles recalled that DEMEC put lineworkers' pictures on billboards in high-traffic areas in Seaford for the past six (6) years as a way to educate customers about their community-owned utility. "**Customers became more connected than ever to the concept of local ownership and joint action**, and the lineworkers loved it, too."

"When you see that it's your neighbor who's out in the dead of night repairing an outage, you feel differently about your utility."

DEMEC also helps its members have a better understanding of their customers, who are increasingly interested in energy

efficiency, demand response, and electric vehicles.

When it comes to adapting to new realities, DEMEC's emphasis on education as a core value resonated with Rob Cote, Clayton's town manager, who spent 22 years in the Air Force, specializing in training and aircraft maintenance.

"I truly believe that **education is the foundation of any successful organization**, whether it's a military service branch, Corporate America, municipal government, or federal government," Rob continued. "Training and education ensure our people are qualified to do the job, proficient in doing the job, and operating safely while on the job. It all starts with training and education."

Encouraged by DEMEC's emphasis on education, Rob said the Town of Clayton's strategic plan has increased its emphasis on employee continual learning. "**We were only able to do that because of our relationship with DEMEC**," he said. "It was a slam dunk."

DEMEC also serves and represents our members in state and federal legislative and regulatory proceedings. In 2022, **DEMEC staff represented members on 17 various energy related legislative and regulatory committees** to educate decision-makers on the unique characteristics of community-owned, public power utilities.

It was a very active year, with three (3) pieces of state legislation introduced related to net-metering, climate change, and the Governor's Energy Advisory Council. **All of DEMEC's member concerns were addressed, keeping local decision-making protected**. DEMEC stayed in contact with Delaware's federal delegation, as well, on federal issues of importance such as direct pay incentives, supply chain issues, and PAYGO funding.

We also represented our members before the regional transmission operator, PJM, and the Federal Energy Regulatory Commission (FERC) to fight against unjust and unreasonable costs being passed down to our members and their customers.



DEMEC saves us thousands of dollars per year.

Charles Anderson, City Manager, City of Seaford



Delaware Municipal Electric Corporation

Financial Statements

December 31, 2022 and 2021

Delaware Municipal Electric Corporation

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December 31, 2022 and 2021

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Independent Auditors' Report

To the Board of Directors of
Delaware Municipal Electric Corporation

Opinion

We have audited the accompanying financial statements of Delaware Municipal Electric Corporation (DEMEC), as of and for the years ended December 31, 2022 and 2021, and the related notes to the financial statements, which collectively comprise DEMEC's basic financial statements as listed in the table of contents.

In our opinion, the accompanying financial statements referred to above present fairly, in all material respects, the financial position of DEMEC as of December 31, 2022 and 2021, and the changes in financial position and cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

We conducted our audits in accordance with auditing standards generally accepted in the United States of America (GAAS). Our responsibilities under those standards are further described in the Auditors' Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of DEMEC and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Emphasis of Matter

As discussed in Note 1, DEMEC adopted the provisions of GASB Statement No. 91, *Conduit Debt Obligations*, effective January 1, 2022. Accordingly, the accounting changes have been retroactively applied to prior periods presented. Our opinion is not modified with respect to this matter.

Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America; and for the design, implementation and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about DEMEC's ability to continue as a going concern for twelve months beyond the financial statement date, including any currently known information that may raise substantial doubt shortly thereafter.

Auditors' Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with GAAS, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of DEMEC's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about DEMEC's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings and certain internal control-related matters that we identified during the audit.

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the required supplementary information, as listed in the table of contents be presented to supplement the basic financial statements. Such information is the responsibility of management and, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Baker Tilly US, LLP

Madison, Wisconsin
May 3, 2023

Delaware Municipal Electric Corporation

Management's Discussion and Analysis
December 31, 2022 and 2021

The management of the Delaware Municipal Electric Corporation (DEMEC) offers all persons interested in the financial position of DEMEC this narrative overview and analysis of the company's financial performance during the years ending December 31, 2022 and 2021. Please read this narrative in conjunction with the accompanying financial statements and the accompanying notes to financial statements.

Overview of the Financial Statements

DEMEC is a public corporation constituted as a Public Power Joint Action Agency and a wholesale electric utility owning generation assets and serving load in the PJM footprint. DEMEC represents eight municipal electric distribution utilities located in the State of Delaware. The creation of DEMEC was made possible by an act of the Delaware General Assembly on June 6, 1978, and the entity was incorporated on July 12, 1979. The members of DEMEC comprise all the major cities and towns in Delaware except Dover and Wilmington. The DEMEC members are Newark, New Castle, Middletown, Smyrna, Seaford, Lewes, Clayton and Milford.

The mission of DEMEC is to support our member's success and relevance, DEMEC delivers excellence in competitive, reliable, sustainable power supply and innovative services, advancing the benefits of community-owned utilities.

This annual report consists of two parts: Management's Discussion and Analysis (this section) and the financial statements. These statements are prepared on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America.

The Statements of Revenues, Expenses and Changes in Net Position present information showing how DEMEC's net position changed during the most recent year due to DEMEC's business activity. The Statements of Net Position report year-end assets, liabilities and net position balances based on the original cost adjusted for any depreciation and amortization.

DEMEC Financial Analysis

An analysis of DEMEC's financial position begins with the review of the Statements of Net Position and the Statements of Revenues, Expenses and Changes in Net Position. A summary of DEMEC's Statements of Net Position is presented in Table 1 and the Statements of Revenues, Expenses and Changes in Net Position are summarized in Table 2.

Delaware Municipal Electric Corporation

Management's Discussion and Analysis
December 31, 2022 and 2021

Table 1
Condensed Statements of Net Position

	2022	2021*	2020
Assets:			
Current assets	\$ 59,242,999	\$ 38,066,762	\$ 45,728,938
Other noncurrent assets	22,069,760	17,800,526	15,225,016
Utility plant and property, net	49,367,452	50,513,629	71,589,693
Total assets	\$ 130,680,211	\$ 106,380,917	\$ 132,543,647
Liabilities:			
Current liabilities	\$ 28,536,986	\$ 12,527,616	\$ 12,089,051
Noncurrent liabilities	48,598,086	47,314,415	63,772,974
Total liabilities	77,135,072	59,842,031	75,862,025
Total deferred inflows of resources	1,381,093	1,479,742	10,038,334
Net position:			
Net investment in capital assets	17,664,285	16,824,555	15,345,851
Unrestricted	34,499,761	28,234,589	31,297,437
Total net position	52,164,046	45,059,144	46,643,288
Total net position and liabilities	\$ 130,680,211	\$ 106,380,917	\$ 132,543,647

*Restated for GASB 91 Standard

Statements of Net Position

During the year ended December 31, 2022, net utility plant assets decreased by \$1,146,177, consisting primarily of \$1,455,054 in capital investments made during the year to replace and upgrade certain components of Unit #1 and Unit #2 of the Warren F. Beasley Power Station and additions to the Joint Lineman Training Facility in the amount of \$59,057. These capital investments, net of depreciation expenses of \$2,075,219 and asset retirements of \$416,394, accounted for the majority of the changes in utility plant.

During the year ended December 31, 2021, net utility plant assets decreased by \$21,076,064, consisting primarily of removal of assets associated with GASB 91 Conduit Debt Obligations in the amount of \$20,054,127 and \$2,293,609 in capital investments made during the year to replace and upgrade certain components of Unit #1 and Unit #2 of the Warren F. Beasley Power Station plus the addition of land for a new Joint Lineman Training Facility. These capital investments, net of depreciation expenses of \$1,825,494 and asset retirements of \$2,504,653, accounted for the majority of the changes in utility plant.

During the year ended December 31, 2022, DEMEC's operating cash and operating cash reserve accounts increased by \$17,088,027 from the previous year due to collateral deposits from suppliers which were posted to DEMEC based on energy market pricing and a refund from Delmarva Power for the Middletown Transmission Line contract termination. Accounts receivable increased by \$7,321,568 due to amounts owed by members and PJM for power supply costs. Other assets increased by \$982,447 due to increases in generation inventory and increases in collateral deposits with suppliers.

Net position increased by \$7,104,902 in 2022 which is due to higher generation market revenues.

Delaware Municipal Electric Corporation

Management's Discussion and Analysis
December 31, 2022 and 2021

As a Joint Action Agency, DEMEC finances electric projects on behalf of its members. All conduit debt has been removed from the financial statements per GASB 91 standards, however outstanding balances are still owed by DEMEC on behalf of its members. Principal repayments associated with the Agency's outstanding revenue bonds, including conduit debt as described below, totaled \$3,451,626 and \$2,691,963 during 2022 and 2021, respectively. DEMEC is scheduled to repay an additional \$2,685,000 on the outstanding revenue bonds in 2023.

During the year ended December 31, 2021, DEMEC's operating cash and operating cash reserve accounts decreased by \$4,060,891 from the previous year due to funds spent on upgrades and repairs as mentioned above to the Warren F. Beasley Power Station plus the acquisition of the land for a new Joint Lineman Training Facility. Accounts receivable decreased by \$238,742 due to lower power supply costs to members. Other assets decreased by \$787,033 due to the refunding of the Series 2011 Bonds.

Net position decreased by \$1,584,144 in 2021 which is due to an unanticipated loss on retirement of replaced and upgraded generation assets and GASB 91 adjustments.

DEMEC issued Series 2021 Electric Revenue Bonds (Series 2021 Bonds) in the total par amount of \$35,935,000 on April 8, 2021, to refinance the series 2011 Bonds issued on November 3, 2011. The final maturity of the Series 2021 Bonds is July 1, 2036. The Series 2021 Bonds were issued to refund all or substantially all of the 2011 Revenue Bonds outstanding and to pay certain costs and expenses incident to the issuance of the Series 2021 Bonds. The balance due on the 2021 bonds is reflected in noncurrent liabilities in the amount of \$32,140,000 and current liabilities of \$1,945,000. Proceeds of revenue bonds not yet expended are included in restricted assets.

DEMEC issued Series 2011 Electric Revenue Bonds (Series 2011 Bonds) in the total par amount of \$57,185,000 on November 3, 2011. The final maturity of the Series 2011 Bonds is July 1, 2041. The Series 2011 Bonds were issued to refund the 2001 Revenue Bonds outstanding and the 2008A General Obligation Bonds outstanding, to finance the project costs of constructing Unit #2 of the Warren F. Beasley Power Station and improvements to the administration building. There is no balance due on the 2011 bonds as of December 31, 2022.

Conduit Debt

DEMEC adopted GASB Statement No. 91, *Conduit Debt Obligations* effective January 1, 2022. Prior periods were restated related to the implementation of this standard.

DEMEC issued Series 2015 Electric Refunding Bonds (Series 2015 Bonds) as conduit debt in the total par amount of \$4,216,387 on December 4, 2015, to refinance the Series 2008B Electric Revenue Bonds issued on December 5, 2008 in the total par amount of \$7,000,000. The final maturity of the Series 2015 Bonds is December 4, 2022. The Series 2015 Bonds were issued to refinance project costs of constructing a new electric substation in New Castle, Delaware for the benefit of the Municipal Services Commission of New Castle (MSC) that were originally financed with the 2008B Electric Revenue Bonds. The MSC entered into a contract with DEMEC for services from the new substation in an amount sufficient to pay the debt service and operating expenses of the substation. The Bond was paid in full as of December 31, 2022.

DEMEC issued Series 2019A and 2019B Electric Revenue Bonds (Series 2019 Bonds) as conduit debt in the total par amount of \$16,695,000 on May 7, 2019. The final maturity of the Series 2019A Bonds is October 1, 2044. The final maturity of the Series 2019B Bonds is October 1, 2034. The Series 2019 Bonds were issued to finance project costs of constructing a new electric substation and transmission line in Middletown, Delaware, as well as, infrastructure upgrade and AML projects in Seaford, Delaware for the benefit of the Town of Middletown and City of Seaford. The balance due on the 2019 bonds is \$14,915,000 as of December 31, 2022.

Delaware Municipal Electric Corporation

Management's Discussion and Analysis
December 31, 2022 and 2021

DEMEC issued Series 2022 Electric Revenue Bonds (Series 2022 Bonds) as conduit debt in the total par amount of \$2,000,000 on July 14, 2022. The final maturity of the Series 2022 Bonds is July 1, 2032. The Series 2022 Bonds were issued to finance AMI project costs in both Middletown, Delaware, and for the Municipal Services Commission of New Castle (MSC), in New Castle, Delaware. The balance due on the 2022 bonds is \$2,000,000 as of December 31, 2022.

Table 2
Condensed Statements of Revenues, Expenses and Changes in Net Position

	2022	2021*	2020
Operating revenues	\$ 208,795,261	\$ 151,937,995	\$ 126,772,342
Depreciation expense	2,075,219	1,825,494	2,242,733
Other operating expenses	188,487,938	139,784,375	114,150,316
Total operating expenses	190,563,157	141,609,869	116,393,049
Operating income	18,232,104	10,328,126	10,379,293
Interest income	225,615	40,501	545,909
Interest and amortization expense	(1,031,550)	(1,766,137)	(2,825,727)
Other income (expense)	(416,394)	(1,682,225)	(1,718)
Total nonoperating expenses	(1,222,329)	(3,407,861)	(2,281,536)
Income before distributions	17,009,775	6,920,265	8,097,757
Distributions to members	(9,904,873)	(8,016,718)	(7,359,656)
Change in net position	7,104,902	(1,096,453)	738,101
Net position, beginning	45,059,144	46,155,597*	45,905,187
Net position, ending	\$ 52,164,046	\$ 45,059,144	\$ 46,643,288

*Restated for GASB 91 Standard

Statements of Revenue, Expenses and Changes in Net Position

Operating revenues for the year ended December 31, 2022 consisted of power supply sales to participating members of \$117,132,400 on consumption of 1,427,088,070 kilowatt hours (kWh), and sales from generation resources of \$91,662,861, for a total of \$208,795,261. This represents an increase of \$56,857,266 in operating revenues (37.4 percent) as compared with the previous year. The increase in operating revenues is primarily attributed to increased generation opportunities along with an increase in market prices for the output and an increase in demand from the members. The 19,817,498 kWh increase in sales volume (1.4 percent) versus 2021 is attributed to normal load growth in the communities. Revenue from generation operations increased by \$45,027,150 (96.5 percent) due to the increased generation opportunity and market prices for generation output in 2022.

Delaware Municipal Electric Corporation

Management's Discussion and Analysis
December 31, 2022 and 2021

Operating revenues for the year ended December 31, 2021 consisted of power supply sales to participating members of \$105,302,284 on consumption of 1,407,270,572 kilowatt hours (kWh), and sales from generation resources of \$46,635,710, for a total of \$151,937,995. This represents an increase of \$25,165,653 in operating revenues (19.9 percent) as compared with the previous year. The increase in operating revenues is primarily attributed to increased generation opportunities along with an increase in market prices for the output and an increase in demand from the members. The 59,328,095 kWh increase in sales volume (4.4 percent) versus 2020 is attributed to COVID-19 pandemic decreased loads in 2020 returning to typical levels in 2021. Revenue from generation operations increased by \$20,608,065 (79.2 percent) due to the increased generation opportunity and market prices for generation output in 2021.

During the year ending December 31, 2022, DEMEC recorded a coincident peak demand of 306.9 MW, which was 1.9 percent higher than the 301.1 MW experienced in the previous year. The total member noncoincident peak demand was 311.6 MW, registering 1.2 percent higher than the 307.9 MW recorded in the previous year.

For the year ended December 31, 2022, total operating expenses increased by \$48,953,288 (34.6 percent) from the previous year due primarily to increased power supply costs resulting from an increase in natural gas and RTO market prices.

For the year ended December 31, 2021, total operating expenses increased by \$25,216,820 (21.7 percent) from the previous year due primarily to increased power supply costs due to an increase in natural gas and RTO market prices.

Debt Service Coverage

DEMEC's bond covenants require the Agency to maintain a debt service coverage ratio of 110 percent on outstanding debt for Series 2021 and 2022 Bonds and a debt service coverage ratio of 115 percent on outstanding debt for Series 2019 Bonds. Debt service coverage for the 2021 Revenue Bonds during the year ended December 31, 2022 was approximately 5.86 times. Debt service coverage for the 2022 Revenue Bonds during the year ended December 31, 2022 was met. Debt service coverage for the 2019 Revenue Bonds during the years ended December 31, 2022 and 2021 was approximately 1.23 times and 1.36 times, respectively.

Significant Events

American Municipal Power (AMP) Fremont Energy Center

DEMEC joined American Municipal Power (AMP) in July 2011, becoming the 129th member of this large, multi-state joint action agency. The AMP Fremont Energy Center, a \$600 million, 675MW high-efficiency combined-cycle natural gas generation plant was completed, and commercial operation began in January 2012. DEMEC is the largest participant of 89 participants in this 100 percent Public Power generation project, initially taking 92.285 MW of capacity and associated energy from the facility for 35 years. During 2018 and 2019, DEMEC expanded its participation to 114.7 MW of capacity and associated energy.

Delaware Municipal Electric Corporation

Management's Discussion and Analysis
December 31, 2022 and 2021

Renewable Energy Resources

In recognition of the changing legislative and regulatory environment, the eight member communities of DEMEC each adopted a Municipal Renewable Portfolio Standard (MRPS) policy in 2013 that targets to acquire 25 percent of its energy requirements from qualifying renewable resources by 2025, with 3.5 percent coming from solar renewable resources. In a response to a 2021 legislative change to the State's Renewable Portfolio Standard, DEMEC members adopted adjustments in 2022 to the MRPS that will target acquiring 40 percent of its energy requirements from qualifying renewable resources by 2035, with 10 percent coming from solar renewable resources. The member communities continue to designate and appoint DEMEC as their agent in achieving compliance with the MRPS policy goals. To achieve compliance with the MRPS policy, DEMEC has entered into several long-term contracts to fulfill the MRPS obligation. DEMEC entered into a 20-year contract in April 2010 to purchase 15 percent of the solar environmental attributes from the Dover Sun Park owned by White Oak Solar Energy, LLC. DEMEC entered into a 25-year contract in May 2011 to purchase 69MW of wind energy and associated environmental attributes from the Laurel Hill Wind Farm owned by Duke Energy Renewable Services, LLC. DEMEC entered into a 20-year contract in May 2012 to purchase 15MW of solar energy and associated solar environmental attributes from the PSEG Milford Solar Farm owned by PSEG Solar, LLC. DEMEC entered into a 3-year contract in October 2013 to purchase environmental attributes from the University of Delaware wind turbine located in Lewes, Delaware and owned by First State Marine, LLC, which was renewed in 2018 for a term of four years. DEMEC entered into a 20-year contract in January 2015 to purchase all environmental attributes produced by the City of Newark McKees Solar Park located in Newark, Delaware. DEMEC entered into a 20-year contract in February 2017 to purchase all environmental attributes produced by the City of Seaford Solar Park located in Seaford, Delaware. DEMEC entered into a 30-year contract in March 2016 with AMP for the construction and operation of a 1.5 MW Solar generator to be located behind the meter in the Smyrna service territory. Commercial operations began in 2018. DEMEC will purchase all energy and 50 percent of the environmental attributes produced by the facility for 25 years.

Contacting DEMEC Management

This financial report is designed to provide our members, investors and creditors with a general overview of DEMEC's financial position as of and for the year ended December 31, 2022. Questions concerning any of the information provided in this report or requests for additional information should be addressed to Delaware Municipal Electric Corporation, 22 Artisan Drive, Smyrna, DE 19977.

Delaware Municipal Electric CorporationStatements of Net Position
December 31, 2022 and 2021

	<u>2022</u>	<u>2021</u> (Restated)
Assets		
Current Assets		
Cash and investments	\$ 28,330,719	\$ 26,299,440
Restricted assets, deposits from suppliers	11,300,000	-
Restricted assets, debt service account	821,275	867,525
Accounts receivable	15,037,766	7,716,198
Fuel oil on hand	1,492,701	1,084,740
Generation inventory	1,422,432	1,155,334
Prepaid expenses	<u>838,106</u>	<u>943,525</u>
Total current assets	<u>59,242,999</u>	<u>38,066,762</u>
Noncurrent Assets		
Restricted assets:		
Debt service reserve	3,762,926	3,725,668
Member advances	8,584,779	4,765,610
Regulatory assets	425,295	457,193
Deposits with suppliers	9,296,760	8,852,055
Capital assets:		
Plant in service	70,109,813	69,078,158
Accumulated depreciation	<u>(20,768,548)</u>	<u>(18,774,245)</u>
Total plant in service	49,341,265	50,303,913
Construction in progress	<u>26,187</u>	<u>209,716</u>
Total noncurrent assets	<u>71,437,212</u>	<u>68,314,155</u>
Total assets	<u>\$ 130,680,211</u>	<u>\$ 106,380,917</u>

See notes to financial statements

Delaware Municipal Electric CorporationStatements of Net Position
December 31, 2022 and 2021

	<u>2022</u>	<u>2021</u> (Restated)
Liabilities		
Current Liabilities		
Accounts payable	\$ 13,643,718	\$ 8,878,424
Restricted for renewable energy fund	828,524	931,662
Restricted deposits from suppliers	11,300,000	-
Current liabilities payable from restricted assets		
Current portion of revenue bonds	1,945,000	1,850,000
Accrued interest payable with restricted assets	819,744	867,530
	<u>28,536,986</u>	<u>12,527,616</u>
Total current liabilities		
Noncurrent Liabilities		
Revenue bonds	32,140,000	34,085,000
Unamortized premium	7,873,307	8,463,805
Member advances	8,584,779	4,765,610
	<u>48,598,086</u>	<u>47,314,415</u>
Total noncurrent liabilities		
Total liabilities	<u>77,135,072</u>	<u>59,842,031</u>
Deferred Inflows of Resources		
Gain on refunding of debt	<u>1,381,093</u>	<u>1,479,742</u>
Net Position		
Net investment in capital assets	17,664,285	16,824,555
Unrestricted	<u>34,499,761</u>	<u>28,234,589</u>
Total net position	<u>\$ 52,164,046</u>	<u>\$ 45,059,144</u>

See notes to financial statements

Delaware Municipal Electric CorporationStatements of Revenues, Expenses and Changes in Net Position
Years Ended December 31, 2022 and 2021

	2022	2021 (Restated)
Operating Revenues		
Revenue from members	\$ 117,132,400	\$ 105,302,284
Revenue from generation operations	91,662,861	46,635,711
Total operating revenues	208,795,261	151,937,995
Operating Expenses		
Power purchases	120,733,705	77,967,832
Ancillary services	5,213,675	1,549,844
Capacity	29,331,631	35,572,000
RPS compliance	3,707,684	3,504,600
Transmission charge	15,636,396	13,443,359
Plant operation and maintenance	11,250,269	5,514,429
Outside services	731,491	633,990
Salaries and benefits	1,344,710	1,229,626
Administrative and general expenses	538,377	368,695
Depreciation and amortization	2,075,219	1,825,494
Total operating expenses	190,563,157	141,609,869
Operating Income	18,232,104	10,328,126
Nonoperating Revenues (Expenses)		
Interest income	225,615	40,501
Interest expense	(1,688,800)	(2,232,755)
Amortization of bond premiums and gain on refunding	689,164	494,179
Amortization of regulatory asset, debt issuance costs	(31,914)	(27,561)
Gain (loss) on retirement of fixed assets	(416,394)	(1,682,225)
Total nonoperating expenses	(1,222,329)	(3,407,861)
Income before distribution to members	17,009,775	6,920,265
Distribution to members	(9,904,873)	(8,016,718)
Change in net position	7,104,902	(1,096,453)
Net Position, Beginning	45,059,144	46,155,597
Net Position, Ending	\$ 52,164,046	\$ 45,059,144

See notes to financial statements

Delaware Municipal Electric Corporation

Statements of Cash Flows

Years Ended December 31, 2022 and 2021

	2022	2021 (Restated)
Cash Flows From Operating Activities		
Cash received from members	\$ 108,874,019	\$ 105,565,263
Cash received from generation operations	91,662,861	46,635,711
Cash received from power suppliers	11,300,000	-
Cash paid to suppliers for goods and services	(183,546,125)	(136,523,938)
Cash paid to employees	(1,190,864)	(1,526,285)
Net cash flows from operating activities	27,099,891	14,150,751
Cash Flows From Noncapital Financing Activities		
Cash received for on behalf financing projects	9,966,944	4,063,947
Cash paid for on behalf financing projects	(6,147,775)	(6,263,354)
Net cash flows from noncapital financing activities	3,819,169	(2,199,407)
Cash Flows From Capital and Related Financing Activities		
Payment for acquisition of property and equipment	(1,345,435)	(5,007,975)
Interest paid	(1,736,586)	(2,431,644)
Debt principal paid	(1,850,000)	(1,615,000)
Net payment from escrow for bond refunding	-	1,347,835
Debt issuance costs paid	-	(478,714)
Net cash flows from capital and related financing activities	(4,932,021)	(8,185,498)
Cash Flows From Investing Activities		
Investments purchased	(16,934,741)	(19,029,357)
Investments sold	16,731,088	18,699,280
Cash distribution to members	(9,071,198)	(7,867,238)
Interest income received	607,285	360,595
Net cash flows from investing activities	(8,667,566)	(7,836,720)
Net increase in cash and cash equivalents	17,319,473	(4,070,874)
Cash and Cash Equivalents, Beginning	17,262,914	21,333,788
Cash and Cash Equivalents, Ending	<u>\$ 34,582,387</u>	<u>\$ 17,262,914</u>
Noncash Capital and Relating Financing and Investing Activities		
Loss on retirement of fixed assets	\$ 416,394	\$ 1,682,225
Bonds proceeds used in refunding of debt	\$ -	\$ 43,445,000
Unrealized loss (gain) on investments	\$ 381,669	\$ 320,094
Member distribution accrual	\$ (833,675)	\$ (149,480)

See notes to financial statements

Delaware Municipal Electric Corporation

Statements of Cash Flows

Years Ended December 31, 2022 and 2021

	<u>2022</u>	<u>2021</u> (Restated)
Reconciliation of Operating Income to Net Cash Flows From Operating Activities		
Operating income	\$ 18,232,104	\$ 10,328,126
Adjustments to reconcile operating loss to net cash flows provided by operating activities:		
Depreciation	2,075,219	1,825,494
Changes in assets and liabilities:		
Accounts receivable	(8,155,243)	89,262
Fuel oil on hand	(407,961)	(5,901)
Generation inventory	(267,098)	(156,464)
Deposits with suppliers	(444,705)	(1,263)
Accounts payable	4,765,294	1,534,369
Prepayments	105,419	363,411
Deposits from suppliers	11,300,000	-
Renewable energy fund	(103,138)	173,717
	<u>\$ 27,099,891</u>	<u>\$ 14,150,751</u>
Reconciliation of Cash and Cash Equivalents to the Statements of Net Position		
Cash and investments	\$ 28,330,719	\$ 26,299,440
Restricted assets, deposits from suppliers	11,300,000	-
Restricted assets, current debt service	821,275	867,525
Restricted assets, member advances	8,584,779	4,765,610
Restricted assets, debt service reserve	<u>3,762,926</u>	<u>3,725,668</u>
	52,799,699	35,658,243
Total cash and investments		
Less noncash equivalents	<u>(18,217,313)</u>	<u>(18,395,329)</u>
	<u>\$ 34,582,386</u>	<u>\$ 17,262,914</u>
Cash and cash equivalents		

See notes to financial statements

1. Summary of Significant Accounting Policies

The Reporting Entity

The Delaware Municipal Electric Corporation, Inc. (DEMEC) is a public corporation constituted as a Public Power Joint Action Agency and a wholesale electric utility owning and operating generation assets and serving load in the PJM footprint. The mission of DEMEC is to support our members' success and relevance, DEMEC delivers excellence in competitive, reliable, sustainable power supply and innovative services, advancing the benefits of community-owned utilities. DEMEC represents and provides power supply and related services to eight municipal electric distribution utilities located in the State of Delaware (the State). The creation of DEMEC was made possible by an act of the Delaware General Assembly on June 6, 1978, and the entity was incorporated on July 12, 1979. The members of DEMEC comprise all the major cities and towns in Delaware except Wilmington and Dover. The DEMEC members are Newark, New Castle, Middletown, Smyrna, Seaford, Lewes, Clayton and Milford.

The eight DEMEC member utilities combined to serve approximately 103,000 people through nearly 48,000 end-use meters with a combined peak demand of 311.6 MW in 2022. The DEMEC member distribution systems vary in size and character. The largest is Newark with over 12,700 meters, while the smallest, Clayton, serves about 1,550 meters. Over the past ten years, all member systems have experienced annual growth rates well above the national average. The members are all primarily distribution utilities.

All Eight members receive 100% of their power requirements from DEMEC (Full Requirements Members). DEMEC supplies these requirements from a diversified portfolio of owned generation assets, bilateral contracts with third-party suppliers and participation in the PJM Interconnection, LLC (PJM) regional markets. DEMEC provides legal and technical consulting services to its members as well as representation in the federal and regional arenas regarding electric industry regulation and operation. DEMEC further provides its members with the benefits of joint and combined buying power, customer retention, economic development, customer education, capital finance, system improvement, best practice training and technical information reporting to improve operating efficiency in their individual systems.

DEMEC joined American Municipal Power, Inc. (AMP) in July 2011, becoming its 129th member. A nonprofit Joint Action Agency organized in a structure similar to DEMEC, AMP owns and operates electric facilities to provide electric power generation, transmission and distribution services to its 135 members across nine states. DEMEC serves on the Board of Trustees of AMP representing the Delaware public power utilities.

Organization and Governance

DEMEC is governed by an eight-member Board of Directors with one director from each of the eight-member municipal electric utilities and eight alternate directors currently appointed. Each member has one vote. Additional votes are divided among the members that have entered into power purchase contracts and are calculated according to the member's committed minimum annual power purchase. Additional votes may be fractional and will be adjusted from time to time as the membership changes or power purchase contracts change.

The responsibility for day-to-day operations of DEMEC resides with a President & CEO appointed by the Board. The President & CEO directs the efforts of the staff members and manages owned generation assets and various contractual relationships in place to meet the service requirements of the members.

Delaware Municipal Electric Corporation

Notes to Financial Statements

December 31, 2022 and 2021

The members of DEMEC have a preferential right to purchase all electric capacity and energy generated by, contracted for or owned by DEMEC. The amount of electric capacity and energy entitled to each member is computed in accordance with plans or formulae adopted by two-thirds of the total authorized vote.

Any municipality of the State may join DEMEC if its governing body authorizes membership and a majority of the DEMEC Board of Directors approve its admission. Membership in DEMEC may be terminated by any municipality acting through its governing body by providing DEMEC with twelve months' written notice.

Measurement Focus and Basis of Accounting

The financial statements are prepared using the economic resources measurement focus and the accrual basis of accounting. Under the accrual basis of accounting, revenues are recognized when earned and expenses are recorded when the liability is incurred or economic asset used. Revenues, expenses, gains, losses, assets and liabilities resulting from exchange and exchange-like transactions are recognized when the exchange takes place.

Preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results may differ from those estimates.

In May 2019, the GASB issued Statement No. 91, *Conduit Debt Obligations*. This statement establishes a single method of reporting conduit debt obligations by issuers and eliminates diversity in practice for commitments extended by issuers and other arrangements with conduit debt obligations. This standard also clarifies the existing definition of conduit debt obligations and improves required note disclosures. DEMEC adopted this statement effective January 1, 2022. Accordingly, the accounting changes have been retroactively applied to prior periods presented.

Assets, Liabilities, Deferred Inflows of Resources and Net Position

Deposits and Investments

For purposes of the statement of cash flows, DEMEC considers cash and cash equivalents to be all unrestricted, highly liquid instruments purchased with an original maturity of three months or less to be cash equivalents. DEMEC maintains its cash and cash equivalents in bank and investment deposit accounts that, at times, may exceed federally insured limits. Some of these balances are collateralized with securities held by the pledging financial institution's trust department.

Cash and investments at December 31, 2022 consist of demand deposits, money market investment accounts, money market mutual funds and short-term fixed income funds. Cash and investments include unrestricted board designated funds for the following:

	2022	2021 (Restated)
Rate stabilization reserve fund, cash and investments	\$ 14,011,116	\$ 17,726,317
Generation operating reserve fund	9,778,634	4,427,971
Capital asset reserve fund	1,891,007	1,490,092
Municipal renewable portfolio standard fund	2,649,962	2,655,060
Total unrestricted board designated funds	<u>\$ 28,330,719</u>	<u>\$ 26,299,440</u>

Delaware Municipal Electric Corporation

Notes to Financial Statements

December 31, 2022 and 2021

DEMEC adopted an official investment policy on March 16, 2021. Investments are limited to: United States treasury obligations, government securities, federal agency securities, certificates of deposit, time deposits, money market mutual funds, Canadian treasury bills, Canadian agency securities, mortgage-backed securities, asset-backed securities and corporate debt obligations that are rated investment grade by a nationally recognized credit ratings agency. Prior to adopting an official investment policy, DEMEC elected to follow Delaware investment guidelines where investments were limited to: Government securities, federal agency securities, certificates of deposit, time deposits, repurchase agreements, money market mutual funds, asset-backed securities, the pooled investment fund known as the Delaware Local Government Investment Pool (DELGIP) as authorized by Title 29, Chapter 12 of the Delaware Code, and corporate and municipal debt obligations that are rated investment grade by a nationally recognized credit ratings agency.

Investments are stated at fair value, which is the amount at which an investment could be exchanged in a current transaction between willing parties. Fair values are based on quoted market prices. No investments are reported at amortized cost. Adjustments necessary to record investments at fair value are recorded in the operating statement as increases or decreases in investment income. Market values may have changed significantly after year end.

Accounts Receivable

Accounts receivable are stated at the amount billed to members and nonmembers. Allowance for doubtful accounts is not considered necessary as DEMEC has not historically experienced delays in payments for service rendered. Expense is recognized only when a specific account is determined to be uncollectible. The effects of using this method approximate those of the allowance method.

Restricted Assets

Restricted assets and revenue bond reserve investments consist of cash and short-term investments reported on the statement of net position at fair value. These assets represent amounts held by the Trustee for the repayment of short and long-term obligations under the outstanding Trust Indenture and funds held for member on-behalf financing projects.

Fuel Oil on Hand

Fuel oil on hand is used as a secondary fuel for generation, not for resale. Fuel oil is valued at cost and charged to generation fuel cost when used for generation using the weighted average cost method.

Generation Inventories

Inventory is stated at specific identification cost. Inventory consists of critical spare parts related to DEMEC owned generation facilities only and are not held for resale. Inventory is charged to generation maintenance costs or plant capital assets when put into service. Inventory is reviewed, at a minimum, annually and adjusted accordingly.

Delaware Municipal Electric Corporation

Notes to Financial Statements

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Prepaid expenses

Prepaid expenses consist primarily of a long-term service agreement to provide inventory and help service the Beasley Plant. Total prepaid expenses were \$838,106 and \$943,525 at December 31, 2022 and 2021, respectively.

Regulatory Assets

In accordance with GASB Statement No. 62 Paragraphs 476-500 - *Regulated Operations*, certain income and expense amounts which would be recognized during the current time period are deferred and not included in the determination of income until such costs are recoverable through member billings. These amounts include unamortized debt issuance costs of \$425,295 and \$457,193 in 2022 and 2021, respectively.

Deposits With and From Suppliers

During the normal course of business, DEMEC enters into contracts that may require cash deposits or that may require one counterparty to post collateral based on daily mark-to-market contract valuations. Deposits from suppliers represent collateral postings from counterparties for forward power contracts. See note 4 for additional details. In addition, DEMEC regularly engages in certain PJM market activity, which requires collateral to be posted based on auction activity, current holdings, unsettled activity, credit quality and other factors pursuant to PJM Credit Policy. This represents deposits with suppliers. As of December 31, 2022 and 2021, DEMEC had posted \$9,296,760 and \$8,852,055 in collateral to PJM, respectively.

Utility Plant and Property

Utility plant and property is generally defined by DEMEC as assets with an aggregate cost of more than \$10,000 and an estimated useful life in excess of one year. Utility plant and property is stated at historical cost. Major outlays for utility plant are capitalized as projects are constructed. Costs related to plant not placed into service are classified as construction work in process. Depreciation does not commence until the item is placed in service. Generation facility consists of capitalized acquisition and construction costs of the generation facility located in Smyrna, Delaware. Utility plant is depreciated using the straight-line method over the following useful lives:

<u>Utility Plant</u>	<u>Years</u>
Generation facility	15-50
Office building and improvements	40
Office furniture and equipment	3-10

Compensated Absences

Under terms of employment, employees are granted vacation and sick leave in varying amounts. The amount of accrued paid time off at December 31, 2022 and 2021 was \$152,237 and \$94,879, respectively, reported within accounts payable.

Delaware Municipal Electric Corporation

Notes to Financial Statements
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Long-Term Obligations

Long-term debt and other obligations are reported as liabilities. Bond discounts, premiums, gains and losses on advance refunding are deferred and amortized by the straight-line method over the repayment period of the related debt. Bond issuance expenses are amortized through rates under the requirements of GASB Statement No. 62 Paragraphs 476-500 - *Regulated Operations*, except for when the Board enacts a Resolution to expense issuance costs on a specific project.

Member Advances

Member advances represents restricted funds collected from members in order to satisfy on behalf financing debt service requirements and associated project costs. See Note 3 and Note 11.

Deferred Inflow of Resources

A deferred inflow of resources represents an acquisition of net position that applies to a future period and therefore will not be recognized as an inflow of resources (revenue) until that future time.

Revenues and Expenses

DEMEC distinguishes operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with DEMEC's principal ongoing operations. The principal operating revenues of DEMEC are charges to members for sales and services. Operating expenses for DEMEC include the cost of sales and services, administrative expenses and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

DEMEC billings are rendered and recorded monthly based on month-end metered usage.

Distributions to Members

Distributions to Members are returns of generation operating reserves to full-requirements members and/or returns of a portion of net margin earned by the Beasley Power Station to the seven Joint Owners of the project. These distributions are not guaranteed year to year and typically take the form of a reduction in current wholesale power invoices.

Income Taxes

DEMEC is exempt from state and federal income taxes because it is a political subdivision of the State of Delaware.

Rates

Rates charged to members are evaluated and approved annually by the Board of Directors, and at any time DEMEC costs are projected to exceed revenues from member billings. Rates charged to members were effective January 1, 2022 and September 1, 2022 consecutively.

Delaware Municipal Electric Corporation

Notes to Financial Statements

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Derivative Instruments and Hedging Activities

DEMEC accounts for its derivative instruments in accordance with GASB Statement No. 53 *Accounting and Financial Reporting for Derivative Instruments*. DEMEC has entered into forward contracts to purchase electricity at set prices and other contracts to sell electricity at fixed prices. These contracts qualify for the normal purchases and sales exception of GASB Statement No. 53 and are not accounted for as derivatives. See Note 4 for additional information regarding DEMEC's forward contracts.

Comparative Data

Certain accounts in the prior year financial statements have been reclassified in order to be consistent with the current year's presentation.

Effect of New Accounting Standards on Current Period Financial Statements

The Governmental Accounting Standards Board (GASB) has approved the following:

- Statement No. 94, *Public-Private and Public-Public Partnerships and Availability Payment Arrangements*
- Statement No. 96, *Subscription-Based Information Technology Arrangements*
- Statement No. 99, *Omnibus 2022*
- Statement No. 100, *Accounting Changes and Error Corrections – an Amendment of GASB Statement No. 62*
- Statement No. 101, *Compensated Absences*

When they become effective, application of these standards may restate portions of these financial statements.

Delaware Municipal Electric Corporation

Notes to Financial Statements
December 31, 2022 and 2021

Restatement

DEMEC adopted GASB Statement No. 91, *Conduit Debt Obligations* effective January 1, 2022. DEMEC had entered into financing arrangements with its members that meet the definition of conduit debt, see Note 11. Prior periods were restated related to the implementation of this standard. Below is a summary of the impact of the restatement.

Schedule of Restatements to Statement of Net Position	As Previously Reported Year Ended December 31, 2021	Adjustments	As Restated Year Ended December 31, 2021
Assets			
Current Assets			
Cash and investments	\$ 27,437,151	\$ (1,137,711)	\$ 26,299,440
Accounts receivable	13,584,089	(5,867,891)	7,716,198
Current portion of member receivables	38,896	(38,896)	-
Total current assets	41,060,136	(7,044,498)	34,015,638
Noncurrent Assets			
Debt service reserve	5,211,183	(1,485,515)	3,725,668
Project accounts	2,142,384	(2,142,384)	-
Member advances	-	4,765,610	4,765,610
Regulatory assets	889,187	(431,994)	457,193
Long-term member receivables	121,439	(121,439)	-
Plant in service	86,119,356	(17,041,198)	69,078,158
Accumulated depreciation	(21,620,852)	2,846,607	(18,774,245)
Construction in progress	6,069,252	(5,859,536)	209,716
Total noncurrent assets	78,931,949	(19,469,849)	59,462,100
Liabilities, Deferred Inflows of Resources and Net Position			
Current Liabilities			
Current portion of loan payable	38,896	(38,896)	-
Line of credit	1,778,045	(1,778,045)	-
Accrued interest	1,484	(1,484)	-
Current portion of revenue bonds	3,451,626	(1,601,626)	1,850,000
Accrued interest payable with restricted assets	1,050,226	(182,696)	867,530
Total current liabilities	6,320,277	(3,602,747)	2,717,530
Noncurrent Liabilities			
Revenue bonds	49,000,000	(14,915,000)	34,085,000
Unamortized premium	10,055,618	(1,591,813)	8,463,805
Member advances	-	4,765,610	4,765,610
Loan payable	121,439	(121,439)	-
Total noncurrent liabilities	59,177,057	(11,862,642)	47,314,415
Deferred Inflows of Resources			
Regulatory deferral	10,489,813	(10,489,813)	-
Total deferred inflows of resources	10,489,813	(10,489,813)	-
Net Position			
Net investment in capital assets	12,156,292	(3,795,542)	8,360,750
Unrestricted	33,461,997	3,236,397	36,698,394
Total net position	\$ 45,618,289	\$ (559,145)	\$ 45,059,144

Delaware Municipal Electric Corporation

Notes to Financial Statements
December 31, 2022 and 2021

Schedule of Restatements to Statement of Revenues, Expenses and Changes in Net Position	As Previously Reported Year Ended December 31, 2021	Adjustments	As Restated Year Ended December 31, 2021
Operating Revenues			
Revenues from members	\$ 106,701,108	\$ (1,398,824)	\$ 105,302,284
Total operating revenues	106,701,108	(1,398,824)	105,302,284
Operating Expenses			
Administrative and general expenses	369,568	(873)	368,695
Depreciation and amortization	2,432,088	(606,594)	1,825,494
Total operating expenses	2,801,656	(607,467)	2,194,189
Nonoperating Revenues (Expenses)			
Interest expense	(3,024,116)	791,361	(2,232,755)
Amortization of bond premiums and gain on refunding	589,965	(95,786)	494,179
Amortization of regulatory asset, debt issuance costs	(51,889)	24,328	(27,561)
Total nonoperating expenses	(2,486,040)	719,903	(1,766,137)
Change in net position	(1,024,999)	(71,454)	(1,096,453)
Net Position, Beginning	46,643,288	(487,691)	46,155,597
Net Position, Ending	<u>\$ 45,618,289</u>	<u>\$ (559,145)</u>	<u>\$ 45,059,144</u>

Delaware Municipal Electric Corporation

Notes to Financial Statements
December 31, 2022 and 2021

Statement of Cash Flows	As Previously Reported Year Ended December 31, 2021	Adjustments	As Restated Year Ended December 31, 2021
Cash Flows From Operating Activities			
Cash received from members	\$ 101,585,806	\$ 3,979,457	\$ 105,565,263
Cash paid for suppliers for goods and services	(136,524,811)	873	(136,523,938)
Net cash flow from operating activities	(34,939,005)	3,980,330	(30,958,675)
Cash Flows From Noncapital Financing Activities			
Cash received for on behalf financing projects	-	4,063,947	4,063,947
Cash paid for on behalf financing projects	-	(6,263,354)	(6,263,354)
Net cash flows from noncapital financing activities	-	(2,199,407)	(2,199,407)
Cash Flows From Capital and Related Financing Activities			
Proceeds from debt issuance	1,778,045	(1,778,045)	-
Payment for acquisition of property and equipment	(3,092,376)	(1,915,599)	(5,007,975)
Interest paid	(3,229,164)	797,520	(2,431,644)
Debt principal paid	(2,730,201)	1,115,201	(1,615,000)
Net cash flows from noncapital financing activities	(7,273,696)	(1,780,923)	(9,054,619)
Net increase in cash and cash equivalents	(42,212,701)	-	(42,212,701)
Reconciliation of Operating Income to Net Cash Flows From Operating Activities			
Operating Income	11,119,483	(791,357)	10,328,126
Adjustments to Reconcile Operating Loss to Net Cash Flows Provided by Operating Activities:			
Depreciation	2,432,088	(606,594)	1,825,494
Changes in assets and liabilities:			
Accounts receivable	(5,779,394)	5,868,656	89,262
Deferred debits	38,896	(38,896)	-
Deferred credits	798,913	(798,913)	-
Renewable energy fund	(173,717)	347,434	173,717
Net cash flows from operating activities	8,436,269	3,980,330	12,416,599
Reconciliation of Cash and Cash Equivalents to the Statement of Net Position			
Cash and investments	27,437,151	(1,137,711)	26,299,440
Restricted assets, current debt service	2,142,384	2,623,226	4,765,610
Restricted assets, member advances	5,211,183	(1,485,515)	3,725,668
Cash and cash equivalents	\$ 34,790,718	\$ -	\$ 34,790,718

Delaware Municipal Electric Corporation

Notes to Financial Statements
December 31, 2022 and 2021

2. Cash and Investments

DEMEC's cash and investments consist of the following:

	Carrying Value as of December 31,		Associated Risks
	2022	2021	
Checking and savings	\$ 28,495,838	\$ 9,386,217	Custodial credit
Corporate bonds	8,080,022	7,693,059	Credit, interest rate, custodial credit, concentration of credit risk
Treasury bonds	7,539,587	6,728,454	Interest rate risk, custodial credit risk
Asset backed securities	2,279,720	2,701,294	Credit, interest rate, custodial credit, concentration of credit risk
Government agencies – implicitly guaranteed	97,308	354,487	Credit, interest rate, custodial credit, concentration of credit risk
Mutual funds	6,307,224	8,794,732	Credit, interest rate
Total cash and investments	<u>\$ 52,799,699</u>	<u>\$ 35,658,243</u>	

Immaterial differences between the carrying value and bank value as of December 31, 2022 and 2021 exist due to deposits in transit and/or outstanding checks.

Deposits in local and area banks are insured by the FDIC in the amount of \$250,000. For balances in excess of the FDIC insurance as of December 31, 2022 and 2021, DEMEC has secured collateralization with the financial institution to mitigate risk.

DEMEC had collateral pledged in the amount of \$35,396,908 and \$13,679,558 for checking and savings accounts as of December 31, 2022 and 2021, respectively. The mutual funds, asset backed securities, government agencies and bonds are uncollateralized.

DEMEC categorizes its fair value measurements within the fair value hierarchy established by generally accepted accounting principles. The hierarchy is based on the valuation of inputs used to measure the fair value of the asset. Level 1 inputs are quoted prices in active markets for identical assets; Level 2 inputs are significant other observable inputs; Level 3 inputs are significant unobservable inputs. DEMEC uses the market approach to value its investments in the mutual funds. DEMEC also uses ICE Pricing indexes to value its investments in treasury bonds, corporate bonds, asset backed securities and government agencies.

Investment Type	December 31, 2022			
	Level 1	Level 2	Level 3	Total
Corporate bonds	\$ -	\$ 8,080,022	\$ -	\$ 8,080,022
Mutual funds	220,676	6,086,548	-	6,307,224
Treasury bonds	7,539,587	-	-	7,539,587
Asset backed securities	-	2,279,720	-	2,279,720
Government agencies – implicitly guaranteed	-	97,308	-	97,308
Total	<u>\$ 7,760,263</u>	<u>\$ 16,543,598</u>	<u>\$ -</u>	<u>\$ 24,303,861</u>

Delaware Municipal Electric Corporation

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Investment Type	December 31, 2021			
	Level 1	Level 2	Level 3	Total
Corporate bonds	\$ -	\$ 7,693,059	\$ -	\$ 7,693,059
Mutual funds	918,035	7,876,697	-	8,794,732
Treasury bonds	6,728,454	-	-	6,728,454
Asset backed securities	-	2,701,294	-	2,701,294
Government agencies – implicitly guaranteed	-	354,487	-	354,487
Total	\$ 7,646,489	\$ 18,625,537	\$ -	\$ 26,272,026

Investment Policy

DEMEC formally adopted an investment policy as of March 16, 2021. Prior to adopting this policy, DEMEC elected to follow the State of Delaware investment guidelines (the guidelines).

Custodial Credit Risk

Deposits

Custodial credit risk is the risk that in the event of a financial institution failure, DEMEC's deposits may not be returned to DEMEC. DEMEC does not have any deposits exposed to custodial credit risk as of December 31, 2022 and 2021.

Investments

For an investment, custodial credit risk is the risk that, in the event of the failure of the counterparty, DEMEC will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party.

As of December 31, 2022 and 2021, DEMEC's investments exposed to custodial credit risk are as follows:

	2022	2021
Corporate bonds	\$ 8,080,022	\$ 7,693,059
Treasury bonds	7,539,587	6,728,454
Government agencies	97,308	354,487
Asset backed securities	2,279,720	2,701,294
Total investments	\$ 17,996,637	\$ 17,477,294

The policy does not specifically address this risk; however, the policy sets maximum allocation of funds in certain investment types within set minimum credit quality guidelines.

Delaware Municipal Electric Corporation

Notes to Financial Statements
December 31, 2022 and 2021

Credit Risk

Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. Investing is performed in accordance with DEMEC's investment policy adopted by the board of directors. To mitigate credit risk, DEMEC enforces minimum credit rating thresholds for each category of investment.

As of December 31, 2022, DEMEC's investments were rated as follows:

	<u>Standard & Poors</u>	<u>Moody's Investors Services</u>
Mutual funds	AAAm	Aaa mf
Corporate bonds	A- - AA+	A3 - AAA
Government Agencies	N/A	AAA
Asset backed securities	AAA	AAA

As of December 31, 2021, DEMEC's investments were rated as follows:

	<u>Standard & Poors</u>	<u>Moody's Investors Services</u>
Mutual funds	AAAm	Aaa mf
Corporate bonds	A- - AA+	A3 - AAA
Government Agencies	N/A	AAA
Asset backed securities*	AAA	AAA

* \$1.4 million of the asset-backed securities are unrated.

Interest Rate Risk

Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment or deposit. As of December 31, 2022, DEMEC's investments matured as follows:

<u>Investment Type</u>	<u>Maturity (In Years)</u>			
	<u>Fair Value</u>	<u><1 Year</u>	<u>1-5 Years</u>	<u>>5 Years</u>
Corporate bonds	\$ 8,080,022	\$ 2,869,540	\$ 5,210,482	\$ -
Treasury bonds	7,539,587	3,447,448	4,092,139	-
Asset backed securities	2,279,720	-	2,279,720	-
Government Agencies	97,308	-	97,308	-
Mutual funds	6,307,224	6,307,224	-	-
Total	<u>\$ 24,303,861</u>	<u>\$ 12,624,212</u>	<u>\$ 11,679,649</u>	<u>\$ -</u>

Delaware Municipal Electric Corporation

Notes to Financial Statements
December 31, 2022 and 2021

As of December 31, 2021, DEMEC's investments matured as follows:

Investment Type	Maturity (In Years)			
	Fair Value	<1 Year	1-5 Years	>5 Years
Corporate bonds	\$ 7,693,059	\$ 3,327,877	\$ 4,365,182	\$ -
Treasury bonds	6,728,454	2,784,336	3,944,118	-
Asset backed securities	2,701,294	-	2,701,294	-
Government Agencies	354,487	-	129,763	224,724
Mutual funds	8,794,732	8,794,732	-	-
Total	<u>\$ 26,272,026</u>	<u>\$ 14,906,945</u>	<u>\$ 11,140,357</u>	<u>\$ 224,724</u>

The policy does not specifically address this risk; however, the policy has maturity restrictions for various investment types.

Concentration of Credit Risk

Concentration of credit risk is the risk of loss attributed to the magnitude of DEMEC's investment in a single issuer.

DEMEC does not have any corporate bonds, government agencies or asset backed securities that are more than 5% of the investment portfolio.

The policy does not specifically address this risk; however, the policy establishes portfolio limits for each type of permissible investment.

3. Restricted Assets

Debt Service Account

The restricted cash account is a current debt service sinking fund used to deposit funds in support of near-dated debt service payments with the Trustee pursuant to the Trust Indenture.

Member Advances

Member advances are related to DEMEC's financing agreements with its members and are restricted to pay for member projects and debt service. Member advances consists of unspent construction proceeds restricted for use in construction, issuance costs, collections from members to pay future debt service, a contingency fund equal to a minimum of 15% of the Maximum Annual Debt Service for the Seaford and Middletown projects and funds refunded from another transmission operator for a cancelled project to be used for future capital spending.

Debt Service Reserve Fund

The revenue bond account for debt service reserve is used to establish a reserve to cover deficiencies in the Debt Service Account. Any excess may be used for other purposes.

Deposits From Suppliers

Deposits from suppliers represent collateral postings from counterparties for forward power contracts. See note 4 for additional details.

4. Power Purchase and Sale Forward Contracts

DEMEC manages its power supply risk through guidelines in its Risk Management and Trading Authority Policy, most recently revised on September 9, 2021 and March 9, 2023 consecutively. The objectives of the risk management policies are to optimize power supply resources, control costs and manage price volatility to the members while avoiding speculative positions in the commodities markets. As part of its risk management policies, DEMEC contracts with counterparties that have a current credit rating of "BBB" or better or who post collateral consistent with anticipated default limits agreed to by both DEMEC and the counterparty. As of December 31, 2022 total collateral postings were \$11,300,000 in cash from Citigroup. See deposits from suppliers in note 1. DEMEC establishes credit limits for each of its counterparties and as a matter of practice reviews mark-to-market exposures on a daily basis. As part of its risk management strategy, DEMEC uses a diversity of suppliers and maintains staggered terms for power purchases, from one month to up to thirty-five years, in order to moderate the effects of short- or long-term price fluctuations. DEMEC's price certainty goal is to achieve 95% price certainty for three years forward. DEMEC has established a letter of credit facility of \$20 million to meet its potential collateral posting requirements. DEMEC currently sources power from twenty-three diverse and creditworthy entities capable of providing dependable physical supply resources. Two counterparties have posted irrevocable standby letters of credit, designating DEMEC as the beneficiary. These counterparties are Nextera Energy Capital Holdings, for an amount of \$11,500,000, and EDF Trading North America, LLC, for \$6,000,000. In 2022, approximately 20% of the total power DEMEC supplied to its members was obtained through forward purchase contracts with a term of three years or longer, less than 1% was obtained through two-year forward purchase contracts, 11% was obtained through forward purchase contracts of one year or less and less than 1% was obtained through spot purchases. The remaining 69% was supplied from the Company's existing generation assets. These contracts qualify for the normal purchases and sales exception of GASB Statement No. 53 and are not accounted for as derivatives. DEMEC utilizes a third-party service provider, ACES Power Marketing, to efficiently manage contracts and credit exposure, evaluate counterparties and execute short and intermediate transactions.

Delaware Municipal Electric Corporation

Notes to Financial Statements
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5. Plant in Service

A summary of changes in capital assets for 2022 follows:

	Balance January 1, 2022	Increases	Decreases	Balance December 31, 2022
Capital assets not being depreciated:				
Land and land rights	\$ 912,846	\$ 14,312	\$ -	\$ 927,158
Construction in progress	209,716	26,187	209,716	26,187
Total capital assets not being depreciated	1,122,562	40,499	209,716	953,345
Capital assets being depreciated:				
Land improvements	33,150	44,746	-	77,896
Generation	66,272,731	1,008,704	-	67,281,435
Office buildings and improvements	1,679,110	14,850	-	1,693,960
Office furniture and equipment	68,409	-	-	68,409
Transportation	111,912	-	50,957	60,955
Total capital assets being depreciated	68,165,312	1,068,300	50,957	69,182,655
Total capital assets	69,287,874	1,108,799	260,673	70,136,000
Less accumulated depreciation	(18,774,245)	(2,075,219)	(80,916)	(20,768,548)
Net capital assets	\$ 50,513,629	\$ (966,420)	\$ 179,757	\$ 49,367,452

Delaware Municipal Electric Corporation

Notes to Financial Statements
December 31, 2022 and 2021

A summary of changes in capital assets for restated 2021 follows:

	Restated Balance January 1, 2021	Restated Increases	Decreases	Restated Balance December 31, 2021
Capital assets not being depreciated:				
Land and land rights	\$ 389,598	\$ 523,248	\$ -	\$ 912,846
Construction in progress	-	209,716	-	209,716
Total capital assets not being depreciated	389,598	732,964	-	1,122,562
Capital assets being depreciated:				
Land improvements	33,150	-	-	33,150
Generation	64,591,551	4,185,833	2,504,653	66,272,731
Office buildings and improvements	1,654,939	24,171	-	1,679,110
Office furniture and equipment	64,354	4,055	-	68,409
Transportation	50,957	60,955	-	111,912
Total capital assets being depreciated	66,394,951	4,275,014	2,504,653	68,165,312
Total capital assets	66,784,549	5,007,978	2,504,653	69,287,874
Less accumulated depreciation	(17,771,178)	(1,825,494)	(822,427)	(18,774,245)
Net capital assets	\$ 49,013,371	\$ 3,182,484	\$ 1,682,226	\$ 50,513,629

6. Net Position

GASB Statement No. 34 requires the classification of net position into three components: net investment in capital assets; restricted; and unrestricted. These classifications are defined as follows:

Net Investment in Capital Assets - This component of net position consists of capital assets, including restricted capital assets, net of accumulated depreciation and reduced by the outstanding balances of any bonds, mortgages, notes or other borrowings that are attributable to the acquisition, construction or improvement of those assets. If there are significant unspent related debt proceeds at year-end, the portion of the debt attributable to the unspent proceeds are not included in the calculation of invested in capital assets, net of related debt. Rather, that portion of the debt is included in the same net position component as the unspent proceeds.

Restricted - This component of net position consists of constraints placed on net asset use through external constraints imposed by creditors (such as through debt covenants), grantors, contributors or laws or regulations of other governments or constraints imposed by law through constitutional provisions or enabling legislation.

Unrestricted Net Position - This component of net position consists of net position that do not meet the definition of "restricted" or "net investment in capital assets."

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Notes to Financial Statements
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When both restricted and unrestricted resources are available for use, it is DEMEC's policy to use restricted resources first, then unrestricted resources as they are needed.

The following calculation supports the net investment in capital assets:

	<u>2022</u>	<u>2021</u> <u>(Restated)</u>
Plant in service and construction in progress	\$ 70,136,000	\$ 69,287,874
Less accumulated depreciation	<u>(20,768,548)</u>	<u>(18,774,245)</u>
Subtotal	<u>49,367,452</u>	<u>50,513,629</u>
Less capital related debt:		
Current portion of capital related long-term debt	1,945,000	1,850,000
Long-term portion of capital related long-term debt	32,140,000	34,085,000
Unamortized premium	7,873,307	8,463,805
Gain on refunding of debt	<u>1,381,093</u>	<u>1,479,742</u>
Subtotal	<u>43,339,400</u>	<u>45,878,547</u>
Add unspent debt proceeds:		
Debt service reserve	<u>3,762,926</u>	<u>3,725,668</u>
Net investment in capital assets	<u><u>\$ 9,790,978</u></u>	<u><u>\$ 8,360,750</u></u>

7. Credit Facilities

DEMEC has a letter of credit facility in the amount of \$20,000,000 and a line of credit facility in the amount of \$25,000,000 with PNC Bank, National Association at December 31, 2022.

The letter of credit agreement was originally dated February 6, 2009 and was last amended on September 30, 2022 and is updated annually with an aggregate amount not to exceed \$20,000,000. The purpose of the letter of credit facility is to provide collateral for posting to contractual counterparties from time-to-time based on daily mark-to-market calculations related to forward power purchase contracts when said mark-to-market amounts exceed certain credit thresholds set forth in the contracts. The purpose of the line of credit facility is to provide liquidity for daily operations.

During the years ended December 31, 2022 and 2021, no draws were made against the letter of credit facility for liquidity needs. As of December 31, 2022, DEMEC has an outstanding \$12,500,000 letter of credit posted to PJM Settlement, Inc as the beneficiary. As of December 31, 2021, there were no collateral postings on the letter of credit facility.

During the year ended December 31, 2021, DEMEC had drawn \$1,778,045 on the line of credit for an on behalf of financing project. Additional funds were drawn in 2022 and subsequently paid off with the 2022 bonds, which are considered conduit debt and not recorded on DEMEC's books.

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Notes to Financial Statements

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Credit Facility Debt Coverage Ratio

Section 6.9 of the credit facility agreement with PNC Bank states that DEMEC agrees to maintain as of the end of each fiscal year a debt service coverage ratio of at least 1.10:1. The ratio is defined in Section 1.1 of the agreement as EBITDA (net income plus interest expense, depreciation and amortization) divided by the sum of current maturities plus interest expense. Current Maturities are defined in Section 1.1 of the agreement as scheduled payments of principal on all indebtedness for borrowed money having a term of more than one year as shown on DEMEC's financial statements as of one year prior to the date of determination.

Based on the definitions in the agreement, DEMEC's debt service coverage ratio for the years ended December 31, 2022 and 2021 is as follows:

Description	Year Ended December 31	
	2022	2021 (Restated)
Change in net position	\$ 7,104,902	\$ (1,096,453)
Add interest expense	1,688,800	2,232,755
Unrealized loss (gain) on investments	381,669	320,094
Loss on asset disposal	416,394	1,682,255
Depreciation	2,075,219	1,825,494
Amortization (net)	(657,250)	(466,618)
Net EBITDA	<u>\$ 11,009,734</u>	<u>\$ 4,497,527</u>
Current maturities plus interest expense	\$ 3,538,800	\$ 3,847,755
Debt service coverage	3.11	1.17

Delaware Municipal Electric Corporation

Notes to Financial Statements
December 31, 2022 and 2021

8. Long-Term Debt

Revenue Bonds

The following revenue bonds have been issued:

Date	Purpose	Final Maturity	Interest Rates	Original Amount	Outstanding Amount December 31, 2022
April 8, 2021	Beasley power station refunding	July 1, 2036	4.0–5.0	\$ 35,935,000	\$ 34,085,000

Revenue bonds debt service requirements to maturity follow:

	Bonds		Total
	Principal	Interest	
Years ending December 31:			
2023	\$ 1,945,000	\$ 1,642,500	\$ 3,587,550
2024	2,045,000	1,545,300	3,590,300
2025	2,150,000	1,443,050	3,593,050
2026	2,255,000	1,335,550	3,590,550
2027	2,050,000	1,222,800	3,272,800
2028-2032	11,860,000	4,472,500	16,332,500
2033-2036	11,780,000	1,290,450	13,070,450
Total	<u>\$ 34,085,000</u>	<u>\$ 12,952,200</u>	<u>\$ 47,037,200</u>

Long-Term Obligations Summary

Long-term obligation activity for the years ended December 31, is as follows:

	Balance January 1, 2022	Additions	Reductions	Balance December 31, 2022	Due Within One Year
Revenue bonds	\$ 35,935,000	\$ -	\$ 1,850,000	\$ 34,085,000	\$ 1,945,000
Unamortized premium	8,463,805	-	590,498	7,873,307	-
Member advances	4,765,610	6,298,166	2,478,997	8,584,779	-
Total	<u>\$ 49,164,415</u>	<u>\$ 6,298,166</u>	<u>\$ 4,919,495</u>	<u>\$ 50,543,086</u>	<u>\$ 1,945,000</u>
	Restated Balance January 1, 2021	Additions	Reductions	Restated Balance December 31, 2021	Restated Due Within One Year
Revenue bonds	\$ 45,060,000	\$ 35,935,000	\$ 45,060,000	\$ 35,935,000	\$ 1,850,000
Unamortized premium	1,931,931	8,857,471	2,325,597	8,463,805	-
Member advances	7,035,578	496,321	2,766,289	4,765,610	-
Total	<u>\$ 54,027,509</u>	<u>\$ 45,288,792</u>	<u>\$ 50,151,886</u>	<u>\$ 49,164,415</u>	<u>\$ 1,850,000</u>

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Notes to Financial Statements

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On April 8, 2021, bonds in the amount of \$35,935,000 (Series 2021 Bonds) were issued to provide funds to (i) current refund all or substantially all of DEMEC's Series 2011 Bonds and (ii) pay costs and expenses incident to the issuance of the Series 2021 Bonds. The cash flow requirements on the old bonds prior to the current refunding was \$67,951,481 and the cash flow requirement on the new bonds is \$50,921,064. The current refunding resulted in an economic gain of \$13,506,968 and a reduced term from 20 years to 15 years.

Gross receipts and real and personal property of the Beasley Power Station project previously pledged as collateral on the 2011 Revenue Bonds have been pledged as collateral on the 2021 Revenue Bonds. The Series 2021 Bonds are subject to acceleration upon the occurrence of an event of default under the Trust Indenture, in which case, upon the declaration of the Trustee, all principal and interest would become immediately due and payable. The seven participants in the Beasley Power Station project are contractually bound to pay debt service and other costs through power sales contracts. Each participant has a share in the project corresponding to its share of load, which is also the amount of debt service for which the project participant is responsible. The power sales contracts run as long as the bonds are outstanding on the project. If a participant defaults on its payment obligation, the remaining participants must pay their respective pro rata share of the defaulted amounts, not to exceed 125% of its initial pro rata share.

Participant	July 1, 2022 through July 1, 2026	July 2, 2026 through Final Maturity
Newark	41.6 %	34.3 %
Milford	20.2 %	19.2 %
Middletown	11.4 %	16.2 %
Smyrna	8.5 %	9.5 %
Seaford	8.5 %	9.9 %
New Castle	8.1 %	7.1 %
Clayton	1.7 %	1.9 %

Debt Service Coverage

2021 Series Revenue Bonds

Section 6.9 of the Series 2021 Bond Resolution requires the calculation of debt service coverage be performed on a project specific basis with revenue generated from the participating members. The resolution requires that DEMEC shall collect charges to provide revenues for payment of the sum of (1) Operation and Maintenance costs, (2) an amount equal to 1.10 times the Aggregate Debt Service for the contract year, (3) the amount to be paid into Debt Service Reserve Accounts and (4) amounts payable for other reserves. Based on this definition DEMEC met the debt coverage requirement for the Series 2021 bond issue for the year ended December 31, 2022 and 2021.

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Notes to Financial Statements
December 31, 2022 and 2021

9. Renewable Energy Fund

DEMEC serves as administrator of the Delaware Municipal Utilities' Green Energy Fund Program for its members. This program was mandated by the State of Delaware to support renewable energy technologies, energy efficiency technologies or demand side management programs. The members remit the required contributions to DEMEC, which administers the grant program and releases funds for approved grants on behalf of members.

Funds held for participating members as of December 31 are as follows:

	2022	2021
Town of Clayton	\$ 7,143	\$ 3,605
City of Lewes	12,511	87,881
Town of Middletown	159,178	240,687
City of Milford	127,604	167,402
City of New Castle	51,303	39,087
City of Newark	379,178	336,739
City of Seaford	40,631	23,181
Town of Smyrna	50,976	33,080
Total	<u>\$ 828,524</u>	<u>\$ 931,662</u>

The following cash transactions show the change of activity from year-to-year:

	2022	2021
Received from members for green energy fund	\$ 339,369	\$ 331,970
Payments made for green energy purposes	(442,507)	(158,253)
Net cash accumulated (used) in renewable energy fund	<u>\$ (103,138)</u>	<u>\$ 173,717</u>

10. Transactions With Significant Customers

Sales of electric energy consist primarily of market sales of generation energy and capacity, and sales to its members, as summarized below, for the year ended December 31.

	2022	2021 (Restated)
AMP	\$ 4,137,372	\$ 5,400,623
PJM	87,523,258	41,232,487
Town of Clayton	2,042,550	1,804,020
Lewes BPW	6,857,793	6,283,425
Town of Middletown	22,141,792	19,924,720
City of Milford	21,325,364	18,715,780
City of Newark	37,368,278	34,303,604
New Castle MSC	7,109,884	6,355,067
City of Seaford	10,055,287	8,691,829
Town of Smyrna	10,231,452	9,223,840
Other revenue	2,231	2,600
Total	<u>\$ 208,795,261</u>	<u>\$ 151,937,995</u>

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11. Conduit Debt

In 2009, DEMEC started a financing program whereby they would issue debt on-behalf of its members for specific projects. Debt is issued by DEMEC and secured by the members, as is the related asset to be constructed. DEMEC facilitates construction of the asset. The members pay the principal and interest on the debt in its monthly bill to DEMEC. DEMEC utilizes bonds and lines of credit to provide initial funding for the projects. The bonds and draws on the line of credit are considered conduit debt under GASB Statement No. 91 and are therefore, excluded from DEMEC's accounts receivable, capital asset and long-term debt balances as of December 31, 2022 and 2021. As of December 31, 2022 and 2021, DEMEC has outstanding conduit debt principal obligations totaling \$17,036,439 and \$18,455,006, respectively. The total is comprised of \$17,036,439 and \$16,676,961 bonds and an interest bearing loan, and \$0 and \$1,778,045 outstanding balances on the line of credit in 2022 and 2021 respectively. Certain cash balances are held by DEMEC as required by the bond resolutions. These amounts are included in member advances liability on the statement of net position. DEMEC has a limited commitment associated with the conduit debt obligations. DEMEC is obligated, according to bond documents, to collect payments from the members and make timely payments to the Trustee. There are no additional or voluntary commitments associated with the conduit debt obligations.

Debt Service Coverage

2022 A/B Series Revenue Bonds (Conduit Debt)

Section 6.8 of the Series 2022 Bond Resolution requires the calculation of debt service coverage be performed on a project specific basis with revenue generated from the participating member. The resolution requires that DEMEC maintain a Debt Service Coverage Ratio of at least 1.10:1. Based on the definition in the Series 2022 Bond Resolution DEMEC has met the debt service coverage requirements for the year ended December 31, 2022.

2019 A/B Series Revenue Bonds (Conduit Debt)

Section 5.8 of the Series 2019A/B Bond Resolution requires the calculation of debt service coverage be performed on a project specific basis with revenue generated from the participating member. The resolution requires that DEMEC maintain a Debt Service Coverage Ratio of at least 1.15:1. Based on the definition in the Series 2019 Bond Resolution DEMEC has met the coverage requirements for the years ended December 31, 2022 and 2021.

On-Behalf Financing Projects

<u>Project Name</u>	<u>Related debt Issue</u>	<u>Final Debt Maturity</u>
MSC New Caste Substation	2015 Bonds	2022
Middletown Substation	2019A Bonds	2044
Middletown Transmission line	2019B Bonds	2034
Seaford Distribution	2019A Bonds	2039
Seaford AMI	2019A Bonds	2029
Middletown AMI Phase 1	2021 Line of Credit and subsequently 2022 bonds	2032
MSC New Castle AMI	2022 Bonds	2032

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In December 2008, DEMEC undertook a project consisting of acquisition, development and construction of a 138kV electrical substation located in New Castle, Delaware. The electric substation project, known as the Dobbinsville Substation, went into commercial operation on January 28, 2011. DEMEC issued a ten-year revenue bond in the principal amount of \$7 million to finance the project. In 2015, DEMEC issued a seven-year refunding bond in the principal amount of \$4,216,387 to refinance the outstanding debt. DEMEC entered into a Service Agreement with the Municipal Services Commission of the City of New Castle which provides for DEMEC to construct, own, maintain and operate the electrical substation for the benefit of New Castle and provides for New Castle to pay DEMEC a monthly service fee sufficient to enable DEMEC to make debt service payments and operation and maintenance payments for the Project. The refunding bond was paid in full as of December 31, 2022 and the Dobbinsville Substation will be transferred to the Services Commission of the City of New Castle thereafter.

In March 2017, DEMEC undertook a project consisting of the acquisition, development and construction and equipping of improvements to the existing Pine Street Substation located in Seaford, Delaware as well as related improvements to existing distribution infrastructure and the acquisition and installation of equipment for an advanced metering infrastructure program. The Pine Street Substation and distribution infrastructure projects known as the Seaford Infrastructure Project went into commercial operations on January 1, 2019. The advanced metering infrastructure program known as the Seaford AMI Project went into commercial operations on June 30, 2019. In 2019, DEMEC issued a twenty-year revenue bond in the principle amount of \$5,680,000 to finance the Seaford Infrastructure Project and DEMEC issued a ten-year revenue bond in the principle amount of \$1,310,000 to finance the Seaford AMI Project. DEMEC entered into a Service Agreement with the City of Seaford which provides for DEMEC to construct, own, maintain and operate the Seaford Infrastructure Project and the Seaford AMI Project for the benefit of the City of Seaford and provides Seaford to pay DEMEC a monthly service fee sufficient to enable DEMEC to make debt service payments and operations and maintenance payments for the Projects.

In March 2017, DEMEC undertook a project consisting of the acquisition, development and construction and equipping of improvements to Delmarva Power & Light Company's Townsend Substation to accommodate the future construction of a new 138 kV transmission line running from the Townsend Substation to Middletown Substation and associated improvements to the existing Industrial Drive Substation located in Middletown, Delaware. The Middletown Projects were partially placed in service on June 30, 2022. In 2019, DEMEC issued a twenty-five-year revenue bond in the principal amount of \$9,705,000 to finance the Middletown Projects. DEMEC entered into a Service Agreement with the Town of Middletown which provides for DEMEC to construct, own, maintain and operate the Middletown Projects for the benefit of the Town of Middletown and provides Middletown to pay DEMEC a monthly service fee sufficient to enable DEMEC to make debt service payments and operations and maintenance payments for the Projects.

In November 2020, DEMEC undertook a project consisting of the acquisition, development and installation of equipment for an advanced metering infrastructure program. The advanced metering infrastructure program known as the Middletown AMI Project went into commercial operations on December 31, 2021. In 2022, DEMEC issued a ten-year revenue bond in the principle amount of \$1,305,974 to finance the Middletown AMI Project. DEMEC entered into a Service Agreement with the Town of Middletown which provides for DEMEC to construct, own, maintain and operate the Middletown AMI Project for the benefit of the Town of Middletown and provides Middletown to pay DEMEC a monthly service fee sufficient to enable DEMEC to make debt service payments and operations and maintenance payments for the Project.

In December 2021, DEMEC and Delmarva Power & Light Company executed an Agreement to Request Termination of Construction Agreement for the construction of the 138 kV transmission line running from Townsend Substation to Middletown Substation. The agreement called for Delmarva to design and construct a new 138 kV transmission line running to the Middletown Substation and the project will proceed through the PJM process. The agreement required Delmarva to refund \$5,867,891 of previously paid funds, upon FERC approval of the termination of the Construction Agreement. These funds reimbursed previously incurred construction costs and were not received in 2022.

Delaware Municipal Electric Corporation

Notes to Financial Statements
December 31, 2022 and 2021

In January 2022, DEMEC undertook a project consisting of the acquisition, development and installation of equipment for an advanced metering infrastructure program. The advanced metering infrastructure program known as the MSC of the City of New Castle AMI Project is not yet in commercial operations as of December 31, 2022. In 2022, DEMEC issued a ten-year revenue bond in the principle amount of \$694,026 to finance the MSC of New Castle AMI Project. DEMEC entered into a Service Agreement with the Municipal Services Commission of the City of New Castle which provides for DEMEC to construct, own, maintain and operate the MSC of the City of New Castle AMI Project for the benefit of the Municipal Services Commission of the City of New Castle and provides the Municipal Services Commission of the City of New Castle to pay DEMEC a monthly service fee sufficient to enable DEMEC to make debt service payments and operations and maintenance payments for the Project.

12. Commitments and Contingencies

Power Sales Contracts

Participating members purchase 100% of their power supply requirements from DEMEC under long-term full requirements service contracts that became effective January 1, 2004, and which will remain in effect unless terminated upon one year's written notice by either party. The obligation of the participating member to purchase and pay for full requirements service, including its allocated costs under any then current forward contract for capacity and energy between DEMEC and a third party in effect as of the date of notice of termination, shall survive the termination of this Agreement.

Participating members have entered into separate power sales agreements effective May 1, 2001, to purchase an interest in the capacity produced by Unit #1 of the Warren F. "Sam" Beasley Power Station located in Smyrna, Delaware, owned by DEMEC. Participating members are entitled to their contractual share of all power supply and ancillary products generated from the nominal 45 MW natural gas fired combustion turbine generator for the useful life of the facility.

Participating members have entered into separate power sales agreements effective May 1, 2011, to purchase an interest in the capacity produced by Unit #2 of the Warren F. "Sam" Beasley Power Station located in Smyrna, Delaware, owned by DEMEC. Participating members are entitled to their contractual share of all power supply and ancillary products generated from the nominal 45 MW natural gas fired combustion turbine generator for the useful life of the facility.

Under the terms of the various agreements, DEMEC is authorized to act as agent for the participating members in all matters relating to the acquisition and delivery of wholesale power supply and management of energy cost risk on behalf of the participating members in the deregulated energy markets.

DEMEC has long and short-term contracts and commitments with various wholesale power suppliers to supply energy, capacity and transmission services to its members. These contracts vary in length and have flexible terms and cancellation provisions. Counterparty risk is managed through strict credit analysis at contract inception and throughout the term of each contract. Counterparty agreements also feature collateral and guarantee provisions to further mitigate default risk. These contracts may be material to the financial statements.

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DEMEC has expanded its self-supply resources in its portfolio as a hedge against the increasing price of energy from the wholesale markets. One such expansion is the addition of Generating Unit #2 at the Beasley Power Station, as mentioned above. Another strategic initiative of DEMEC is its participation in the AMP Fremont Energy Center (AFEC), a 675 MW Natural Gas Combined Cycle Power Plant that began commercial operation on January 21, 2012. The Fremont Energy Center is operated by AMP, a 133-member public power Joint Action Agency. On July 29, 2011, DEMEC became the 129th member of AMP with an initial participation level of approximately 13.69% of the capacity and energy from AFEC pursuant to a thirty-five year take-or-pay contract. On May 1, 2018, DEMEC acquired an additional share of AFEC output, from 92MW to 105MW, and on May 1, 2019, DEMEC acquired another additional share of AFEC output from 105MW to 114.7MW.

DEMEC is also making strategic power purchases in renewable generation resources. One such initiative is the Laurel Hill Wind Farm (Laurel Hill), a 69 MW wind generation plant operated and developed by Duke Energy Renewables located in north-central Pennsylvania. Laurel Hill began commercial operation on September 30, 2012. DEMEC is entitled to 100% of the project's energy and environmental attributes pursuant to a twenty-five year contract. DEMEC has also invested in solar generation facilities. DEMEC has a contract with the operator of the Milford Solar Park, a 13MW photovoltaic generation facility located in Milford, Delaware. DEMEC is entitled to receive 100% of the energy and an increasing schedule of the project's environmental attributes pursuant to a twenty-year contract. DEMEC also has a contract with the operator of the Dover Sun Park, a 10 MW photovoltaic generation facility located in Dover, Delaware (the Sun Park). DEMEC also has a long-term contract with American Municipal Power (AMP) for the Smyrna Solar Park, a 1.5 MW photovoltaic generation facility located in Smyrna, Delaware. The project is part of an overall portfolio of projects delivered by AMP that totals over 60MW of solar, for which DEMEC is entitled to receive its prorata share of energy and 50% of the environmental attributes from the Smyrna Solar Park.

13. Employee Retirement Plan

DEMEC's employees are covered by a 457(b) governmental retirement plan administered by Mission Square Retirement. Benefit provisions and all other requirements are approved by the board of DEMEC. Employees are eligible to participate in the plan immediately upon employment. Both employee and employer contributions are immediately vested. Eligible employees who elect to participate in the plan may contribute none of their annual compensation up to a maximum not to exceed \$20,500 in 2022. Employees age 50 or older may contribute an additional \$6,500 in 2022. Employees taking advantage of the special pre-retirement catch-up may be eligible to contribute up to double the normal limit for a total of \$41,000 in 2022. DEMEC contributes up to 6% of employee salaries without a match. If an employee elects to contribute up to 3% of earnings, DEMEC will match that portion of contributions up to an additional 3%. Senior management is eligible for additional contributions of up to 4.5% pursuant to Board approval. Total contributions to the plan by DEMEC for the years ended December 31, 2022 and 2021 were \$92,764 and \$94,755, respectively.

As of December 2, 2021, senior management is eligible to participate in a 401(a) governmental retirement plan administered by Mission Square Retirement. Benefit provisions and all other requirements are approved by the board of DEMEC. Board approval is needed to be eligible to participate in the plan. Both employee and employer contributions are immediately vested. Eligible employees who elect to participate in the plan may contribute none of their annual compensation up to a maximum not to exceed \$61,000 in 2022. DEMEC contributes 6% of employee salaries without a match. Employee contributions are not mandatory and DEMEC will not match any voluntary employee contributions. Total contributions to the plan by DEMEC for the years ended December 31, 2022 and 2021 were \$13,689 and \$4,129, respectively.

Delaware Municipal Electric Corporation

Notes to Financial Statements
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14. Open Contracts

DEMEC has entered into various contracts for construction, equipment procurement, engineering and other services related to the current projects being financed on behalf of members. As of December 31, 2022, contracts valued at a total of \$3,653,454 remained open. A total of \$1,869,324 was spent through December 31, 2022, leaving an open balance of \$1,784,130. The funds will be paid out of the member advance accounts as defined in Note 3.

15. Subsequent Events

DEMEC management has evaluated all events and transactions that occurred after December 31, 2022, through the date the accompanying financial statements were available to be issued, May 3, 2023. During this time period, there were no material subsequent events which required disclosure.



Looking Forward

Each year organically builds on its predecessor while also laying the foundation for the future. Our performance as an organization in 2022 was only possible because of the changes we implemented throughout the organization's history. In 2023, we expect to make further progress.

In a dynamic business environment, it is not possible to perfectly predict what changes might come, but by standing firm on our core values, we are better able to meet whatever challenges come our way in 2023 and beyond.

General Information

Financial Statements

Financial statements, past annual reports and more are available on our website at: PublicPowerDE.com

Forward-Looking Statements

This document may include certain forward-looking statements. These statements are based on management's current expectations and are subject to uncertainty and changes in circumstances that may have a material effect on actual results.

DEMEC

Delaware Municipal Electric Corporation



***Powering Communities
Together.***

Contact Information

Address

Delaware Municipal Electric Corporation
P.O. Box 310
22 Artisan Drive
Smyrna, DE 19977

Phone

302.653.2733

Fax

302.653.2734

Website

PublicPowerDE.com

Facebook

@DEMEC