



DEMEC

Delaware Municipal Electric Corporation

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October 16, 2018

TO: DEMEC Board of Directors

FROM: Patrick E. McCullar, President

SUBJ: Energy Efficiency Program Funding Recommendation

During the 2018 budget process, the Board directed funding for the DEMEC Energy Efficiency Program (“DEEP”) be included in the energy supply power portfolio budget and assessed through the member’s wholesale billing rate. The 2018 budget was approved unanimously on November 21, 2018. The Board adopted resolution 2018-3 on February 20, 2018, authorizing the President to enter into a contract with AMP for energy efficiency services and take other necessary steps to direct the development and implementation of DEEP on behalf of its member communities. While five member communities initially committed to DEEP, Lewes subsequently withdrew from the DEEP and indicated they would instead participate in the State DESEU program. Clayton, New Castle, Milford and Seaford became the first communities to launch DEEP. As a part of DEEP, we had already committed to work with the DESEU, as we have in other projects, to bring additional energy efficiency benefits to our retail customers.

The three-year contract for energy efficiency services aligns with DEMEC’s core mission to provide the lowest possible cost of energy to its members. The services provided under the contract will focus on reducing wholesale capacity, transmission and ancillary costs in addition to kilowatt-hour savings. The contract further benefits DEMEC members through the advancement of economic development and customer retention efforts by providing engineering studies of customer facilities and other promotions to benefit end-use customers. The contract also provides for customizable programs to best fit the needs of each particular member community.

Based on immediate interest from four members for these services and recognizing that other members would have similar interest but a different timeline for beginning participation in the program, we structured the contract to allow for the initial group of four members to begin participation, then expand as other members choose to begin participation.

Energy efficiency service costs were incorporated into DEMEC’s power supply budget based on the reasoning that any and all reductions in demand from retail customers translates into holistic cost reductions for all DEMEC full-requirement communities. The goal of this contract is the same as our energy procurement contracts, to ultimately reduce the cost of providing electric service to our members. The cost reductions will be in the areas of energy, capacity obligation, transmission

and other ancillary PJM costs associated with consumption and peak demand. Additionally, this contract provides DEMEC and its member communities a toolkit for better retail customer relations, increased retail customer satisfaction, and support for economic development activities.

At the September 19 Board meeting, Director Gordon brought objections raised by the Lewes BPW. The Lewes BPW stated that they did not want to be assessed through their wholesale power rate for the cost of a program they were not participating in. The Lewes BPW stated they wanted a refund of the money they have paid to date. This initiated a discussion of the Board that recapped how the Board arrived at the design and funding of the program. The Board continued to agree that the all-for-one method of funding beneficial programs should continue, otherwise disparities will occur between DEMEC member rates. Some members expressed their concern that if they choose to participate and others do not, they will be assessed additional costs that would negatively impact their costs compared to other members that were not participating.

My understanding of the discussion among the Board is that the members want to continue the DEMEC Energy Efficiency Program. I agree with the all-for-one concept, and it has served us well for many years. While Lewes has voted their objection, the Board approved the program and funding method by a majority of 7-1, with Dover abstaining. I also understand and agree with the member's concern regarding rate disparity.

I am making a proposal to settle the issue of DEEP funding, address the Lewes objection, and address the other member concerns regarding the creation of wholesale price disparity. DEMEC is committed to the three-year contract for energy efficiency services, and we want to preserve the option of enrollment in the program for all members at the time of their choosing. I propose that the Board refund the \$0.90/MWH currently included in the 2018 member wholesale rates and designated as DEEP funding. All members would receive their prorated refund as a credit on their December DEMEC bill to be issued in January 2019. Going forward, I recommend the Board direct the DEEP contract be funded from the net contributions derived from the revenues derived from operation of our generating resources. The Fremont combined cycle generation facility has produced positive net margins for the past 7 years, averaging a net contribution of \$4,000,000 annually. The Board has directed that these net contributions be credited to the Rate Stabilization Reserve. The cost of the committed three-year contract for energy efficiency program services (less than \$500,000 in the first year, potentially \$1.2 million annually for years 2 and 3 if all members joined) could be funded from these resources without assessing the cost to member communities through their wholesale bills. The impact on the Rate Stabilization Reserve funding would be minor. At the end of the initial program term, we will assess the program's results and determine if we should continue.