COUNCIL COMMITTEE OF THE WHOLE

The Council Committee of the Whole Meeting was held on April 11, 2017 at 6:00 p.m., with Council President Slavin presiding. Members of Council present were Mr. Anderson, Mr. Sudler, Mr. Neil, Mr. Cole, and Mr. Hutchison. Mr. Lewis and Mr. Hare were absent. Civilian members present for their Committee meetings were Ms. Arndt and Mr. Blakeman (*Utility*).

Mayor Christiansen was also present.

UTILITY COMMITTEE

The Utility Committee meeting was held with Chairman Cole presiding.

AGENDA ADDITIONS/DELETIONS

Mr. Hutchison moved for approval of the agenda, seconded by Mr. Sudler and unanimously carried.

Presentation - Energy Efficiency Program Proposal by Delaware Municipal Electric Corporation (DEMEC)

Mr. Pat McCullar, President, Delaware Municipal Electric Corporation (DEMEC) advised that DEMEC is a joint action agency that provides generation, transmission, and technical services to eight (8) municipal distribution systems in the State of Delaware, which are DEMEC's owners. He explained that DEMEC is a not-for-profit company, everything that they do is for the benefit of the eight (8) municipal utilities that own DEMEC, and they would be very thrilled to have Dover be the ninth utility to own it. Mr. McCullar stated that they had been invited to present their recommendation and program to meet the intent of the State of Delaware's energy efficiency goals in a cost effective manner.

Mr. McCullar stated that DEMEC supported Dover's current efforts to explore all avenues available to increase energy efficiency and to lower the cost of operating its municipal utility, and noted that one (1) immediately available option was to switch to DEMEC, being the full requirement Load Serving Entity (LSE) for the City of Dover, as the other eight (8) municipal electric utilities had done in the past. He noted that, in addition to gaining the potential advantage of DEMEC's rates, this switch would largely eliminate Dover's power supply acquisition costs from the cost of services currently being provided by third parties under contract. Mr. McCullar indicated that the switch would also eliminate a major management responsibility and work requirement costs, while the City would maintain full control and ownership of the electric utility. He advised that DEMEC was available at any time to discuss this in further detail.

Mr. Scott Lynch, Vice President of Asset Development, DEMEC, stated that the evening's presentation was the product of about two (2) years worth of work. He explained that DEMEC was approached by its members to see what other program offerings they could provide, and one (1) of them was energy efficiency. Mr. Lynch advised that, in October of 2016, the DEMEC Board requested a formal presentation and recommendation for consideration, and the Energy Efficiency Program Proposal was presented during their meeting in November 2016. Mr. Lynch noted that in December the Board took action to state that the next step in the process would be to bring this

program before the local regulatory bodies for consideration, and engage with American Municipal Power, Inc. (AMP). Mr. Lynch indicated that AMP's program had been evaluated by DEMEC against other programs of this type around the country and was probably the best program Mr. Lynch had ever seen. He stated that the program had a lot of benefits due to its quality and its shared nature, which was designed specifically to help municipalities.

Mr. Randy Corbin, Assistant Vice President of Energy Efficiency, AMP, advised that they are a joint action agency with 135 members in nine (9) states and were proud to have DEMEC as one (1) of those members. He explained that they had been working with DEMEC on the Energy Efficiency Program for two (2) years, and he and Mr. Dave Cawley, Business Development Manager, Efficiency Smart, had been working on it for 10 years. Mr. Corbin noted that in 2007 they began working on an energy efficiency program for AMP's members, in an effort to achieve their goal of 1% annual energy savings for subscribing members by 2015. He indicated that, as a joint action agency, they offer a subscription and cannot force any of their members to participate in any of their programs, explaining that members have to sign up and pay a fee. Mr. Corbin advised that education is very laborious and much more difficult than his previous work as a regulator for the Illinois Commission.

Mr. Corbin explained that he and Mr. Dave Cawley came up with the Efficiency Smart Program, noting that Mr. Cawley is the implementation contractor and works for the Vermont Energy Investment Corporation (VEIC). He noted that they signed a contract with VEIC to implement the program in 2010 and started offering services in 2011. Mr. Corbin advised that their first three (3) years ran from 2011 - 2013 and they were proud to hit 150% of their three-year target. He indicated that they lowered their price and set a higher target for the second three (3) years, which they had just finished, and hit approximately 150% of their three-year target again.

Mr. Corbin and Mr. Cawley reviewed a presentation entitled, "Energy Efficiency Program Proposal for Dover, DE." In summarizing the presentation, Mr. Cawley reviewed the Benefits & Costs for the City of Dover and noted that the proposal was based on the characteristics of Dover as a community. He indicated that the objective of the program would be to save a quarter percent of the annual electricity sales for each year, for a three-year period, which would save 5,660 MWh of electricity. Mr. Cawley stated that when energy efficiency measures are installed, they have a measured life and, on average for a program like this, this measured life would be approximately 12 years; therefore, over the life of these efficiency measures, 66,870 MWh would be saved. He noted that the offering to save this quarter percent was based on a unit price of 90 cents per MWh sold, resulting in an annual fee of approximately $679,000 to the community. Mr. Cawley advised that over a three-year program, this would be a little more than $2,000,000. He explained that the benefit would be the avoided energy, the avoided peak demand and capacity charges, the transmission and distribution charges, etc. Mr. Cawley advised that the program could also help to defer investment in new distribution equipment. He indicated that these kinds of benefits would deliver a benefit to cost ratio of two (2) to one (1); therefore, there would be $2.00 of benefit for every $1.00 dollar invested in the program. Mr. Cawley indicated that it would also provide a levelized cost over the life of the savings of approximately $30 per MWh and, relative to other new power supply, this would be two (2) to three (3) times cheaper than new power supply.

Mr. Sudler asked what the nearest city to Dover was where this service had been provided and how that city was presently doing. Responding, Mr. Cawley advised that his company, VEIC, manages the program in Washington, DC. He explained that they had started services in 2011 and their contract with the Department of Environment and Energy for the District of Columbia had just been renewed for another five (5) years.

Mr. Sudler asked if the District of Columbia had any major concerns with the product being provided. Responding, Mr. Cawley indicated that the District of Columbia was very much interested in seeing that low-income citizens would be able to receive the benefits of the program and structured it so that 30% of the money spent in the program had to be directed to housing and to low-income houses.

Mr. Slavin expressed interest in the program; however, he explained that the City had a somewhat counterintuitive business model. He indicated that conservation on the part of the customers reduces the City's revenues, which threatens its ability to transfer profit from the utility over to the General Fund and puts pressure on taxes. Mr. Slavin advised that he personally felt that this had held the City back on conservation efforts over the years because there was no internal reward for conservation, which causes problems elsewhere, and spills into the lack of economic development incentives. He noted that this had been hinted at in the presentation, with the return ratio of two (2) to one (1), avoiding energy usage altogether, and peak issues. Mr. Slavin asked how other municipalities who found themselves in the same kind of scenario had approached this.

In response to Mr. Slavin, Mr. Corbin advised that they had served 54 communities over six (6) years and that he thought that every community was worried about whether their electric fund would be harmed. He stated that many of these communities had participated for the entire six (6) years and not a single one had said that their electric fund was harmed to a significant degree. Mr. Corbin explained that, at the level they were approaching it, the intensity of energy efficiency was saving a quarter percent of sales a year and was only addressing and cutting growth, and not the base sales. He stated that in many of these communities, three (3), four (4), or five (5) businesses constitute 30% - 40% of their sales. Mr. Corbin stated that sales could drop even more precipitously if these businesses are not made more competitive and they cut back or leave the community. He noted that, in many instances, by cutting their operating costs these businesses had actually increased sales and came out of the Great Recession more competitive, and he cited two (2) examples. Mr. Corbin advised that Airstream makes recreational vehicles in Jackson Center, Ohio, and this product suffered in the Great Recession. He stated that Airstream did a couple of projects with his organization, came out of the Great Recession in a far more competitive position, and had now attracted their frame manufacturer into Jackson Center. Mr. Corbin indicated that they had basically reduced some of Jackson Center's growth but not their base sales, and now their electric fund was growing. Likewise, he stated that Allstate has a big data center in one of the communities participating in the program, and it was losing business to another data center in the Allstate company. Mr. Corbin explained that data centers are huge energy users. He noted that this center did a couple of projects, cut their energy by 20%, and could then bid and take business away from other data centers in the Allstate family. He advised that they were far more competitive and had actually grown; therefore, this program could grow sales, rather than reducing them, and this had been the experience of communities they had helped over the last six (6) years.

Mr. Cawley noted that it had been discussed that efficiency measures last 12 years on average. He indicated that this meant that the program would help to keep rates lower because the City would have to purchase less new power supply. Mr. Cawley indicated that efficiency in that regard helps to mitigate future rate increases and ends up being a benefit for everybody who is on the system.

Mr. Blakeman commented that it had been mentioned that light bulbs could be purchased for $5.00 and sold for $1.00 and asked if the City could do this. Responding, Mr. Cawley advised that the program takes care of this. He noted that it is a turnkey program and they provide everything, from working with the vendors who would sell the product to working with the manufacturers to broker the deals so that the product is there. Mr. Cawley stated that some parties are interested in promotion, noting that getting people to participate is key, so they try to use all the media outlets that they can, including bill inserts, messages in the billing, social media, and co-op advertising.

Mr. Blakeman questioned where the $4.00 would come from. Mr. Cawley responded that this is part of the fee for the program, which helps to buy down the cost and is an incentive. He explained that the manufacturer provides the light bulbs to the retailer, and Mr. Cawley's organization just helps to reduce the cost of the product to the retailer so they can sell it at a lower price. Mr. Blakeman asked if this goes into the fee, and Mr. Cawley stated that it did.

Responding to Mr. Blakeman regarding the location of call centers, Mr. Cawley advised that they have three (3) different locations and, depending on the size of the program, they may need a call center in Delaware. He noted that most of their staff for the program would be located in Delaware. Mr. Cawley indicated that they are currently supported out of their offices in Columbus, Ohio; Washington, D.C.; and Vermont. In response to Mr. Blakeman, he indicated that if Dover was in the program, they would have an account manager in Dover.

Mr. Blakeman asked who would supply people to participate in community events. In response, Mr. Cawley stated that this relates to account management, and they have community engagement staff that provides this kind of service, this is covered in the fee, and there are no additional charges.

Mr. Neil asked if it was possible to do a trial run with some of the City's businesses who are concerned about seeing what could be done about electric, or if the City would have to pick up the entire package in order to have that done. Responding, Mr. Corbin stated that they could make themselves available to meet with some of these businesses if members would like them to better explain what they do. He indicated that, in order to see what could be done, the first step with key account managers is usually a walk-through type audit. Mr. Corbin explained that they are very experienced and can usually walk through a building, do some baseline analysis, and understand what they need to do. He noted that this usually involves being in the program.

Mr. Cawley expressed his belief that, in the past, they had an engineer and key account manager come to communities who were thinking of joining the program. He noted that they had someone coming to do service and take a look at street lights, and there may be an opportunity to set up a meeting.

Mr. McCullar stated that there had been meetings with all nine (9) of the municipal electric utilities in Delaware. He advised that they had commitments to sign up from Seaford, Newark, New Castle,

Clayton, approval was pending from Milford, and they were waiting on Middletown. Mr. McCullar indicated that they were looking for everyone to participate in the program. He noted that their number one (1) goal was to do it efficiently, and they had found over the years that an "all for one, one for all" approach was the most efficient, since it makes the most efficient use of the dollars and resources they would bring to apply in every community. Mr. McCullar advised that there would be community managers for the program and a lot of customization, so each community would have an opportunity to shape the program to their unique needs.

In regard to money and how the program would affect a business model, Mr. McCullar advised that a lot of this had to do with rate design, and everyone should be looking strongly at rate design in all the communities. He stated that DEMEC would be putting on a rate design seminar on Saturday, April 22, 2017 at 9:00 a.m., noting that a Saturday morning had been selected because a lot of council people had indicated that they would like to come but had jobs and were busy. Mr. McCullar stated that they would discuss what rate designs work in the electric utility industry of today, stating that, with the right rate design, the City could make itself fairly immune to the negative impact from the loss of kilowatt hour sales. Mr. McCullar indicated that this was the way to go because customers were starting to demand these services, and businesses want ways to be more efficient so they can become more competitive. He stated that, although businesses want and need lower rates, being able to show them techniques and technologies to make them more efficient and lower their cost of production means more to them than their electric rate, and this is what the program does. Mr. McCullar advised that this is a great economic development tool for retention of businesses and bringing new businesses in. He indicated that when the demand for energy from customers is reduced, the cost of capacity, transmission, and producing the next megawatt of energy is avoided, and noted that the cost of that next megawatt of energy is going up quite a bit in today's regulatory environment. Mr. McCullar explained that the margin gets larger as more power is produced, so it is better to save money for the end-use customers and to save the cost of the City's utility having to produce the next megawatt.

Mr. Anderson asked for an explanation of the nature and extent of the LED streetlight conversion benefit and if there were grants that help reduce the cost to the municipality. Responding, Mr. Cawley stated that, in working with municipalities in the Efficient Smart Program, no special grants had been needed. He noted that they provide both the technical assistance to help design the technology going in and the financial incentives to the community to help offset some of the costs of the LED streetlights. Mr. Cawley advised that they had worked with at least a half a dozen communities in the Efficiency Smart Program in the Ohio program and were trying to find out if there were more communities that were interested in order to expand the program. He indicated they were considering putting together a contracting program to put out a bid for multiple cities to see if they could obtain cost reductions from suppliers and contractors for the installation of the work, and this was currently under development.

Mr. McCullar noted that they have an aggressive LED streetlight retrofit program for the communities in the DEMEC group, and Mr. Lynch was their resident expert in making that happen.

Mr. Lynch advised that their members were looking at ways to save energy that would go after their costs, and one (1) way was to look at street lighting, which is a cost burden to the community. He stated that they work to bring economies of scale together by bulk purchasing the power of multiple

municipalities to lower the cost of LED lights. Mr. Lynch indicated that the City of Newark took tremendous advantage of that program and changed out over almost 2,000 of their LED streetlights, and reducing this portion of their load was a direct benefit to the community. He explained that other communities saw this and became a part of it themselves. Mr. Lynch advised that they found that there was a direct benefit with the initial pilot program and, even without a grant, the LED lights were much more effective than lights that burn out more quickly. He noted that LED lights meant that they did not have to roll out a truck, there was safety in not having to have a worker out on the lights, and this made the project worthwhile. Mr. Lynch advised that this had already been done in DEMEC. He indicated that this was offered to the City of Dover and DEMEC stood ready to assist the City with the initial pilot. He explained that bringing forth this program would help further that effort.

Mr. Hutchison asked how long they had been working with Newark with the LED street light program, and Mr. Lynch advised that they had done this approximately two (2) years ago. Mr. Lynch indicated that they got the product in at the end of 2015 and it was fully installed by approximately February 2016. Mr. Hutchison asked how long it takes to get the product once it is identified that a municipality wants to proceed. Responding, Mr. Lynch stated his belief that the order was placed in late November and the product was received from the vendor in the first part of January.

Mr. McCullar explained that they already had contracts with vendors, had gone through a couple of phases of installation, and vendors had held the prices for about a year-and-a-half through each phase of it. He noted that the maintenance costs for these lights go down tremendously since they last multiple years, as opposed to high-pressure sodium lights, and a truck does not have to roll out periodically to maintain them, which is a big cost savings. Mr. Corbin noted that LED street lights are available that have a 10-year warranty, which indicates a high faith that the lights will not have to be replaced for 10 years.

Mr. Blakeman advised that the City of Dover thought this was such a good idea that they had been using these kinds of lights for several years. He noted that all new and replacement lights are this type and they can be seen on Route 8; however, he expressed appreciation for the help.

Ms. Arndt questioned if funding for rebates would come from the annual fee or if this would be a pass-through from federal grants. Responding, Mr. Corbin stated that this is included in the fee.

Mr. McCullar noted that they do not rely on any additional federal grant or local grant money, stating that they designed the program based on the ability to stand alone if they are going to have to do it themselves. However, he stated that they will obtain grant money if they can.

Mr. Lynch added that they made sure to include in the program a component that the contractors would look for other availabilities for funding, and the purpose of the program was not to supplant those programs but to complement them. He noted that if there was a means to take an incentive that the State is offering, those dollars could be used in efforts that were not being funded.

Mr. Anderson questioned if there had been progress in getting efficiency in helping to meet some of the State's Renewable Portfolio Standards (RPS). Responding, Mr. McCullar stated that there would be a benefit since the State's RPS is based off the amount of KWh sales that a municipality

consumes. He noted that when the number of sales and the costs are reduced through efficiency, the compliance cost for renewables is also reduced, so they work hand in hand.

Mr. Anderson asked how the program works when it comes to key accounts management and how often the City could expect to have access to someone. He asked if they would have a certain number of people in Delaware who would go around and help those who need it. Responding, Mr. Cawley stated that, with a full complement of all nine (9) communities, it would be reasonable for them to have two (2) or three (3) dedicated account managers, with each serving two (2) or three (3) communities, noting that size would make a difference. He explained that their program currently has four (4) key account managers serving 25 communities that are spread out over a three-hour drive in either direction. Mr. Cawley advised that they are there every month and have regular meetings, usually with the utility manager, but sometimes with city managers. He advised that these individuals could go over the progress of the program, discuss directional priorities, and coordinate on publicity. Mr. Cawley stated that they would co-brand things, and the City's emblem could be included with the program emblem on advertising and communications, so that there would be instant recognition that the City was offering the service.

Mr. McCullar explained that DEMEC would be working very closely with the program, noting that Mr. Lynch's title is Vice President of Asset Development. He explained that they consider energy efficiency to be an asset, just like a generation plant would be, and they would be working very closely with Efficiency Smart. He stated that their own people, including Mr. Lynch and others, would be available to work with each of the communities to make sure that the program is successful.

Mr. Anderson questioned if any of their programs would involuntarily restrict access to electricity at certain peak hours and if meters would suddenly kick people off. In response, Mr. McCullar advised that they would not.

Mayor Christiansen noted that it had been stated that account representatives would be working with each of the municipalities. He asked if an accurate report could be provided each month for the previous month. Responding, Mr. Corbin indicated that monthly reports could be provided to all participants and could be tailored to a municipality's specific needs. Mayor Christiansen asked if they would work with the City's utility director and City Manager to format a readable document for members of Council, and Mr. Corbin indicated that this could be done.

Mr. Anderson asked if the City would be required to be a full member or if it could participate as an associate member. In response, Mr. McCullar stated that the City could participate in the program on an equal footing with all other DEMEC communities and the cost and level of service would be the same.

Mr. Anderson noted that the annual cost would be approximately $700,000 and that it had been stated that the benefit ratio would be two (2) to one (1). He asked how long it would be before the City would start to recoup this cost. In response, Mr. Cawley advised that the annual cost would be close to $700,000 and, on average, there would be approximately a 12-year life for the measures, although some of the measures would go for up to 20 years. He explained that, from a payback

perspective, typically the crossover point when the benefits are greater than the cost comes in around year seven (7) or so for the program.

Ms. Arndt asked if they would be willing to offer the City customer contact information so that the City could reach out to other municipalities to get their thoughts on the experience. Responding, Mr. Corbin indicated that referrals could absolutely be provided. He advised that Mr. Eric Norenberg, City Manager of Milford, used to be the City Manager in Oberlin, Ohio, which was one (1) of their long-term participants and would be happy to talk about the program.

Mr. Anderson moved that this matter be referred to staff for review, noting that he would like to hear back in July what they think. The motion was seconded by Mr. Sudler.

Mr. Slavin asked if there could be an earlier report during the budget deliberations.

Mrs. Donna Mitchell, Acting City Manager, stated that she would try to bring something forward during the budget deliberations. Mr. Slavin asked Mrs. Mitchell to remember that members wanted to have a conversation about this program during the budget. Responding, Mrs. Mitchell stated that this could be done because this would be a budgetary decision if members decided to go this route.

The motion to recommend referring this matter to staff for review was unanimously carried.

Mr. Neil moved for adjournment of the Utility Committee meeting. The motion was seconded by Mr. Blakeman and unanimously carried.

Meeting adjourned at 6:48 p.m.

By unanimous consent, the Council Committee of the Whole meeting adjourned at 6:48 p.m.

Timothy A. Slavin
Council President

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