August 26, 2008

Ms. Donna S. Mitchell, CPA
Controller/Treasurer
City of Dover
15 East Loockerman Street
Dover, DE 19901

Subject: Proposal to Perform Review Electric System Financial and Rate Spreadsheet Model

Dear Ms. Mitchell:

Burns & McDonnell is pleased to submit this letter proposal to perform review services for the City of Dover Electric System financial forecasts. Burns & McDonnell is prepared to complete a review of the Fiscal Year (FY) 2010 Electric System financial forecast, cost-of-service and rate design models recently updated by the City of Dover. Our experience in preparing the original financial forecast, cost-of-service and rate design models should make completing the review a relatively straight forward matter.

Scope of Work
The major elements of the proposed Scope of Work include review of the financial forecast for 2010 and the subsequent four years, review of the cost of service allocations for the 2010 test year, and review of the resulting electric rate adjustments resulting from the financial forecast and cost of service elements of the spreadsheet models.

Review Financial Forecast

Burns & McDonnell will review the financial forecast model updated by the City. The financial forecast is developed to determine the adequacy of revenues for a five-year forecast period. The updated financial forecast includes projections of annual revenues under existing rates and the annual revenue requirement, including purchased power costs, all operating expenses, capital requirements, debt service requirements, and reserve requirements, by year for the forecast period. The financial forecast model identifies the overall change in revenue required to provide for adequate funding for capital improvement programs, to meet all recurring annual operating and capital expenditures, to cover all debt service requirements, to maintain sufficient cash balances and capital reserves.

Prior to the City's finalization of the financial forecast model, the City and Burns & McDonnell will agree on the updated financial forecast model results and the assessment of estimated impacts on the revenue requirements of the Electric System. Burns & McDonnell and the City will have a conference call to review the model results and discuss any necessary revisions.

Review Cost-of-Service Analysis

Burns & McDonnell will next review the cost-of-service analysis model updated by the City. The City will complete an update to the cost-of-service analysis utilizing information from the financial forecast. The cost-of-service analysis will be completed using FY 2010 as the test year. The cost-of-service analysis should include appropriate allocation factors based on statistical units of service and allocation methodologies. In order to ensure that revenue is recouping the cost of product or services rendered, all sources of revenue should be reviewed. The cost of service analysis provides for the unbundling of costs to specific functions. The analysis also provides allocation of appropriate costs to specific customer classes.

Prior to finalization of the cost-of-service analysis model, the City and Burns & McDonnell will discuss and agree on the revisions to the model based on the FY 2010 test year and the assessment of estimated impacts on the cash flow of the Electric System. Burns & McDonnell and the City will discuss the cost-of-service analysis model in a conference call.

Review Electric Rates

Burns & McDonnell will review the rate model updated by the City. The City will complete an update to the rate model with the most recent fiscal year's billing data. This billing data along with the existing and

9400 Ward Parkway
Kansas City, Missouri 64114-3319
Tel: 816 333-9400
Fax: 816 333-3690
www.burnsmcd.com

DRAFT

proposed electric rates will be reviewed by Burns & McDonnell to ensure that the proposed rate design is recovering the necessary revenues as determined in the cost-of-service analysis model.

Optional Model Training Services

Burns & McDonnell will, as an optional service, provide a one day training session on updating and utilizing the financial forecast, cost-of-service, and rate model spreadsheets for the City of Dover and Electric System staff. The one day session will be lead by Adam Young and will include a PowerPoint presentation and hands on work in each of the individual spreadsheets. A user's manual will be provided which outlines the basic functionality of the various spreadsheets.

Proposed Budget

Burns & McDonnell proposes to perform the review services for an estimated fee of $12,500. This fee is based on approximately 120 man-hours for completing the required effort. This estimate does not include any expenses associated with a trip to Dover. If the work can be completed for less than the estimated fee, the City will only be billed for the actual costs incurred to complete the services. The optional model training services can be provided for an additional fee of $4,100. This fee includes expenses associated with travel for the one day training session in Dover.

Burns & McDonnell appreciates the opportunity to provide the City of Dover continued service in these important matters. Should you have any questions regarding the material presented herein please call Ted Kelly at (816) 822-3208. If this proposal for the review services is acceptable please indicate by signing below and returning one copy of the letter. If the City wishes to also have Burns & McDonnell provide the optional model training services please indicate by signing the appropriate line below.

Respectfully submitted,
BURNS & McDONNELL

Jeffrey J. Greig
General Manager, Business & Technology Services

Ted J. Kelly
Principal, Business & Technology Services

JJG/TJK

Authorization for Model Review Services
Accepted by:

_____

Authorization for Optional Model Training Services
Accepted by:

_____

DRAFT

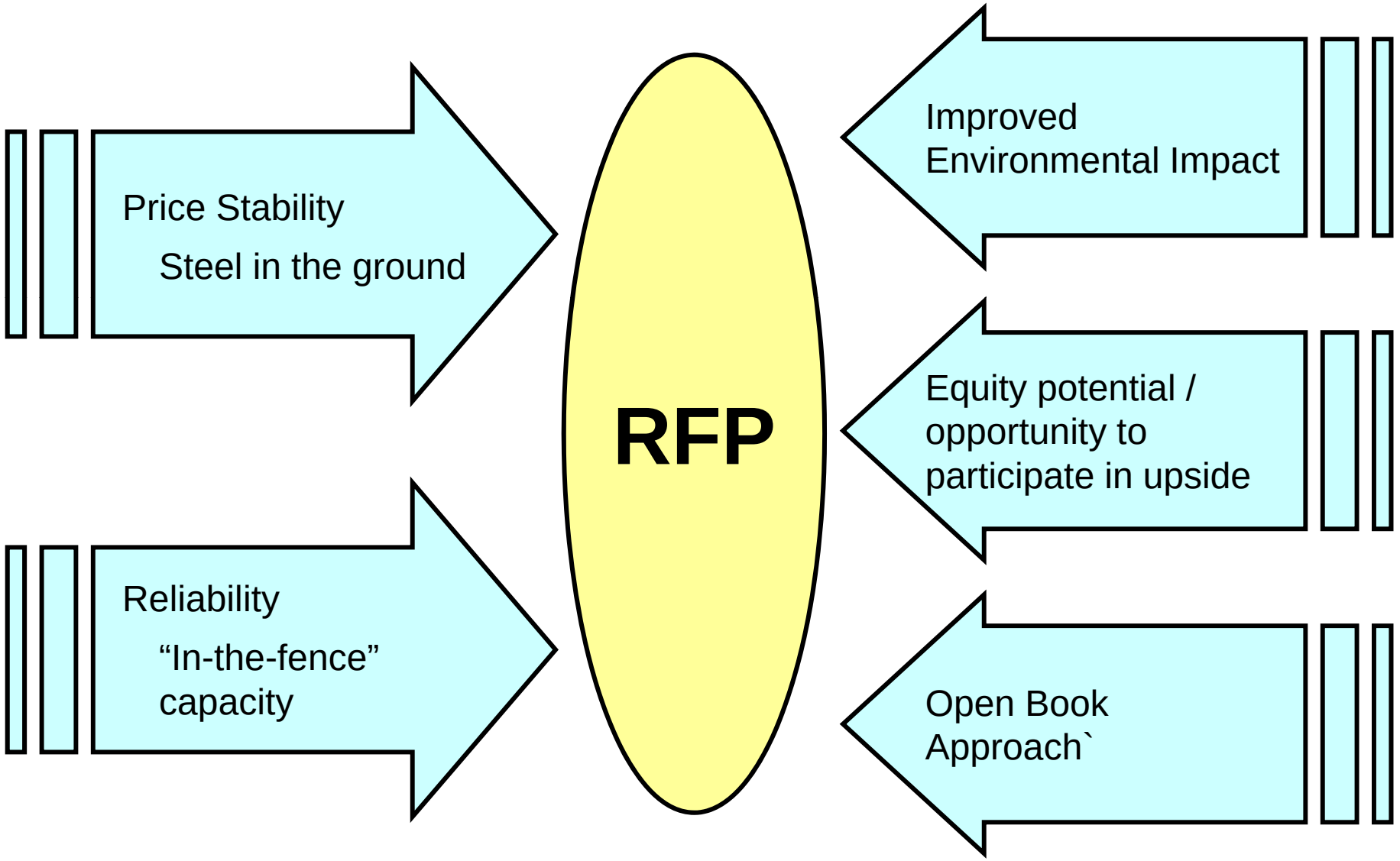
City of Dover

Discuss RFP Status & Selection Criteria

August 21, 2008

ATTACHMENT #2
Utility Committee Meeting of 09/08/2008

RFP Objectives



RFP Approach

- Allow developers to leverage their market expertise and create cost effective solution(s) for Dover.
- Provide economic and non-economic comparisons across a broad range of proposals while maintaining competition.

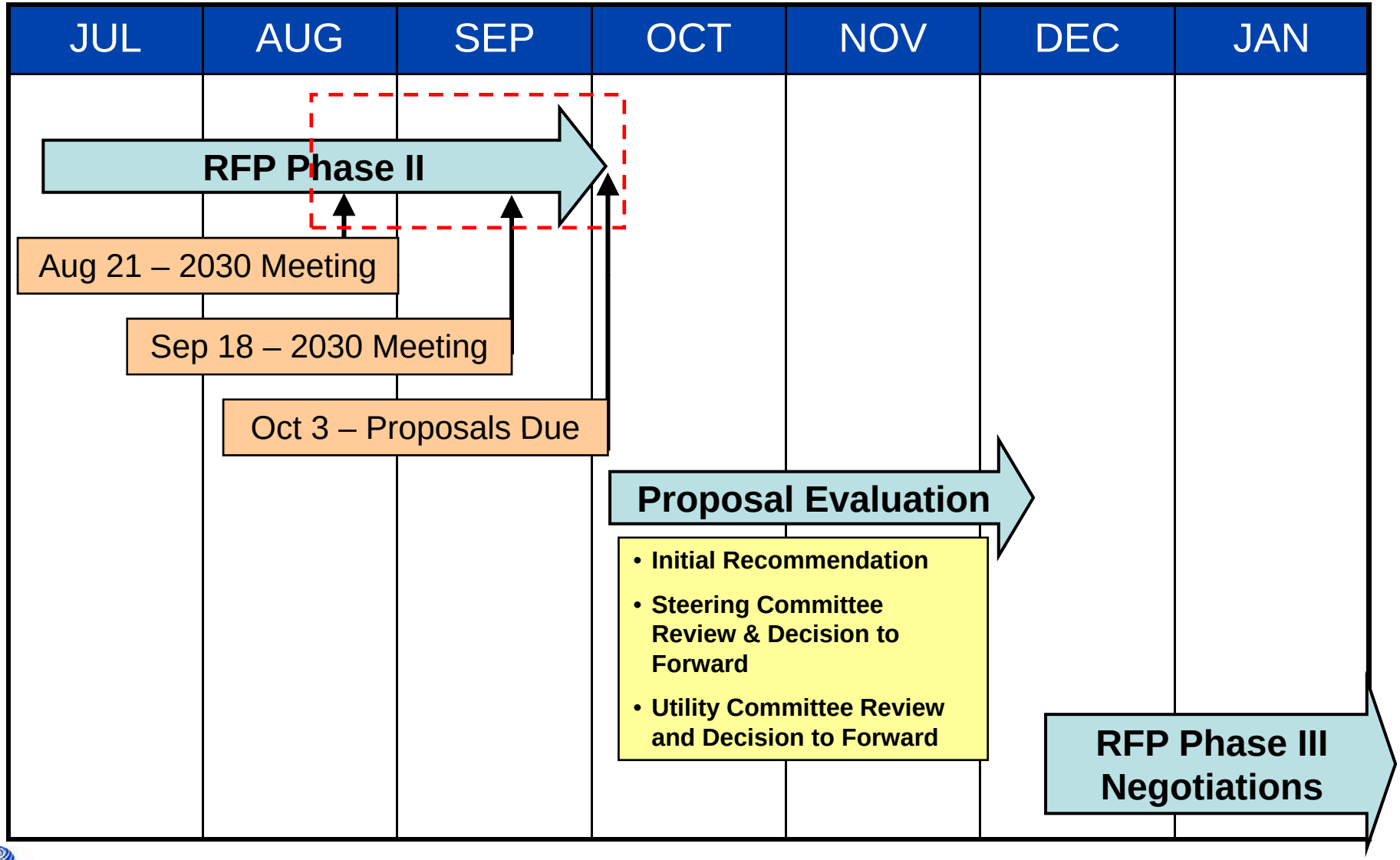
  Cost to provide service to Dover

  Analyze and evaluate risks

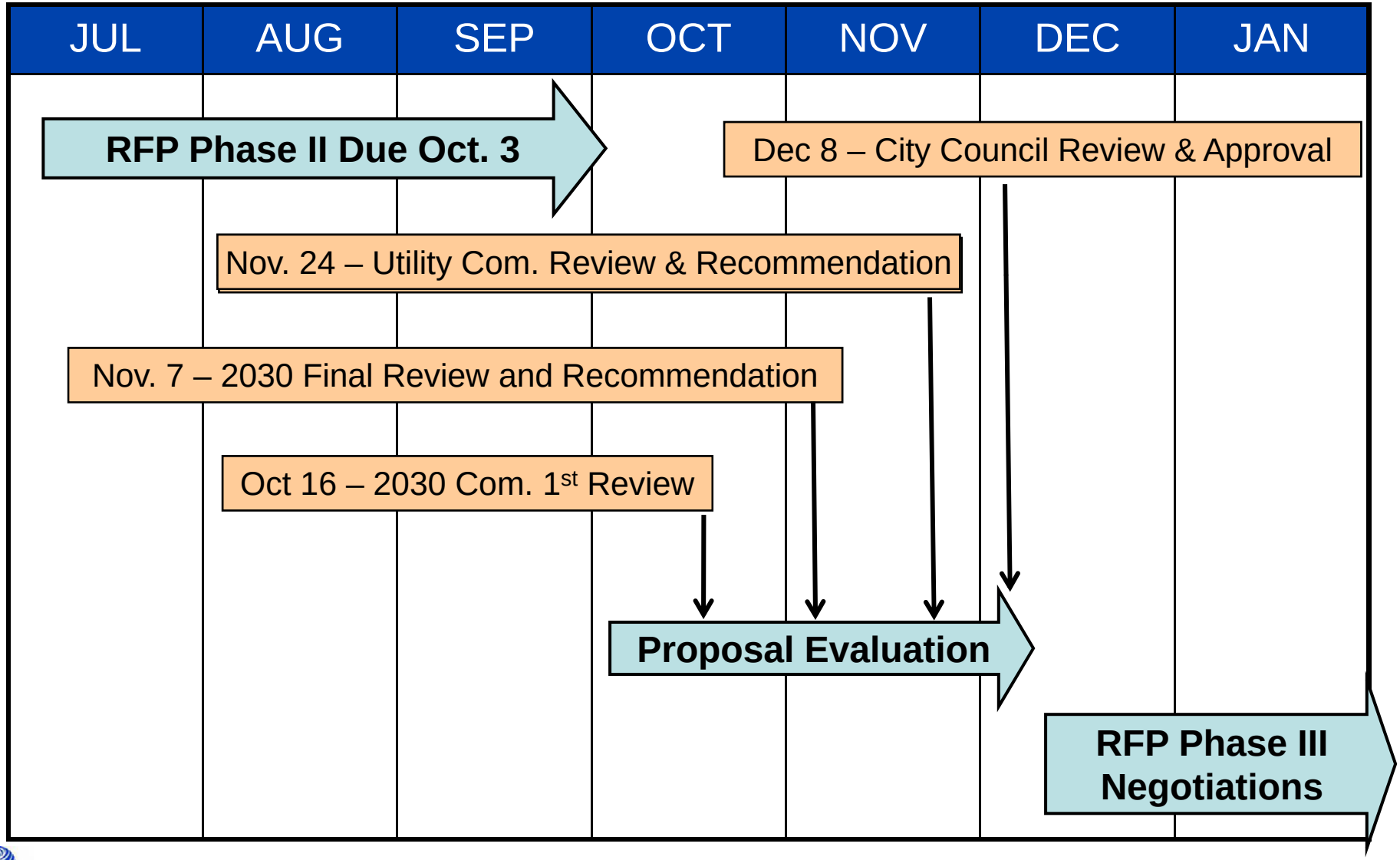
  Other non-economic facets

- Identify 1, maybe 2 developers for exclusive right to negotiate a binding contract with Dover.

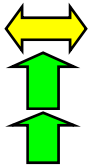
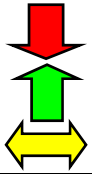
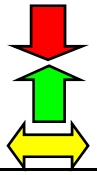
RFP Schedule



RFP Schedule



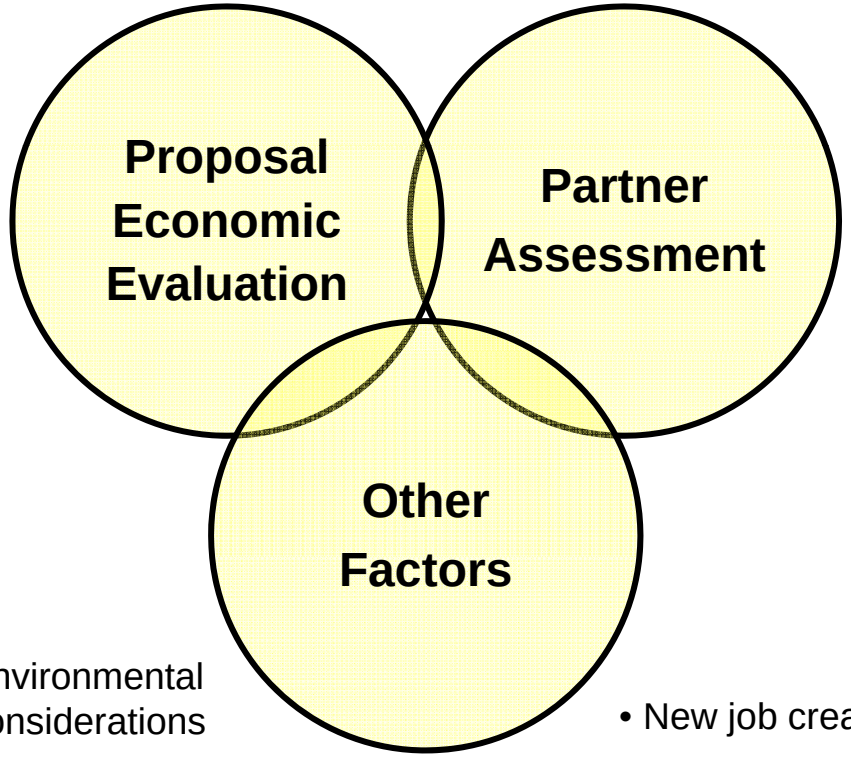
Economic Considerations for Garrison Tract

Economic Drivers	Relative Attractiveness Within PJM	Factors Impacting Short & Long Term
Revenues		
Capacity		Assumes MAPP Project & other transmission upgrades.
Energy		MAPP Would lower relative advantage. Today it is $5-$7 favorable compared to PJM West.
Ancillary		New technology would provide spinning reserve and regulation at lower cost.
Variable Operation Costs		
Natural Gas		Eastern Shore Zone 2 rate adds $0.02/dth for commodity for firm transport and $0.60/dth for interruptible transport..
Var. Maintenance		Ability to leverage NAES employees in McKee and Van Sant to lower the cost and potentially maximize reliability.
Other		
Fixed Costs		
Natural Gas Tariff		Firm transport reservation charge is $17.33/dth per month for Eastern Shore Zone 2.
Operating Labor		Ability to leverage and mobilize larger scale and scope with NAES.
Other		
Net Income		
Capital Costs	?	Need to better understand transmission upgrade cots from PJM.
Reliability		Provides price and capacity hedge for the City.
Price Certainty		Option to compare, view and eliminate price market volatility.

Evaluation Philosophy

- Levelized energy and capacity pricing w/ risk adjustments
- Options on capacity & price stability
- Participation options & value

- Developer's qualifications
- Developer's approach to the process



- Environmental considerations
- Schedule / timing

- New job creation
- Business disruption

1 maybe two developers selected

Evaluation Methodologies

- Proposal Economic Evaluation
  - Levelized expected costs
  - Risk adjusted levelized costs (exposure to commodity price and other market risks)
  - Options on capacity
  - Participation options and potential for upside
  - Risk mitigation
- Partner Assessment
  - Approach to process (open verse non-open book)
  - Financial strength
  - Experience with proposed technologies
  - Experience within PJM and with municipalities.

Evaluation Methodologies - *Continued*

- Other Factors
  - Environmental considerations
  - Schedule / timing (equipment availability)
  - New job creation
  - Business disruption
  - Overall flexibility in addressing Dover's needs
  - Other factors determined during proposal review