



Aug 23, 2022

Dear Valued City of Dover Customers,

As you know the costs of everything has risen in the past year. The city is not immune to these types of increases just as our customers are not. The city has looked for numerous ways to reduce budget expenditures, reduce costs and try to shield the customers from these increases as best as it can. Unfortunately, a unsustainable point in providing these services without having to pass these expenses on to our customers has been reached. This is true across all the departments in the city, but it has been much more noticeable in the Electric Department.

It is important for customers to know where their power comes from so here is a little background of how your power gets to you. Dover relies on Delmarva Power to provide the power you consume. Delmarva Power supplies most of the state with power under the regulation and control of the Pennsylvania, New Jersey, and Maryland interconnection, referred to as PJM. For the electric grid of the United States to operate efficiently and reliably, there are many regional transmission operators in place that operate in concert with each other to control the national transmission systems.

PJM examines the current situations of the grid, power generation capabilities and load requirements to provide the cheapest and reliable power to the region. The generation capabilities of PJM are spread across many different sources to include natural gas, nuclear, coal, hydro, and renewables (solar & wind). The most predominant fuel source for generation is natural gas followed by nuclear which together makes up approximately 75% of the available power. Natural gas fuels approximately 44% of the total electric generation in the region.

Just as gasoline and diesel prices have increased drastically so have natural gas prices. Over the last three years natural gas prices have increased from \$1.77 in 2020 to \$3.84 in 2021 and as of August 22, 2022, natural gas prices closed at \$9.76 per MMBtu. For perspective, 1 MMBtu of natural gas will create .29 MWh of power. Calculated out to cover the natural gas required to supply electricity to Dover for the year at last year's consumption fuel expense in 2020 equated to \$4.4M while this year it could be \$24.4M. These increases equate to a 550% increase in energy costs in fuel alone and that doesn't include ancillary costs related to the electric generation, labor, material, repairs, etc. Add to that, unplanned outages at generation stations due to supply chain backlogs and long delays in lead times for material and the cost of energy continues to rise.

In June 2022, City leadership presented the City Council with a proposed budget for power supply. This budget was established by looking at current and potential market conditions, environmental regulatory changes, as well as other factors. The result was an increase of



almost 78% primarily from power supply costs, from \$50.1M for fiscal year 22 to \$91.5M this fiscal year. To try and offset this additional \$40M in expense, the decision was made to eliminate the power purchase cost credit (refund) and turn it into a debit (charge).

The power purchase cost adjustment is a tool to minimize fluctuating rate changes. If revenue is greater than expense the difference is returned to the customer as a credit, however when expenses are greater than revenue the opposite will occur as it did this year. By removing the .007 cent credit and implementing the .03 cent charge, approximately \$21.8M of the \$41M budget increase may be generated if consumption remains the same as last year.

What can you do to help lower the impact on your budget? Here are a few tips to help you out:

1. Turn off unneeded lights and appliances.
2. Set your thermostat a few degrees higher in the summer and lower in the winter.
3. Keep your curtains or blinds closed during the day.
4. Lower your hot water heater temperature.
5. Wash in cold water to eliminate the hot water heater from running.
6. Seal up any leaks around your doors and windows.
7. Keep up on regular maintenance on your heating and cooling system.
8. Fix any leaky ducts in your heating and cooling system.
9. Check the temperature on your refrigerator and freezer, can you increase it?
10. Replace conventional bulbs with compact fluorescent or LED bulbs.

Remember, this is only one department's struggles with the economic environment we are confronting. All city departments are dealing with increased fuel costs and material costs which are increasing expenses. Unfortunately, the city is unable to fully absorb the increased costs of provided services without having to pass it on to the customer.

This was a very hard decision to make for all involved. The Electric Department is committed to providing our customers with the most reliable and affordable power and do it as inexpensively as possible. Rest assured that all discretionary spending has been minimized so we can focus only on important projects to maintain our transmission and distribution systems.

Sincerely,

Paul Waddell
Electric Director