

Annual Engineering Consultant's Report

on the

Operation and Maintenance of the Electric System Fiscal Year 2007

Prepared for the

**Electric Division
City of Dover, Delaware**



**Project Number 47534
2007**

**Burns &
McDonnell**
SINCE 1898



December 21, 2007

Mr. Anthony J. DePrima
City Manager
City of Dover
15 E. Loockerman St.
Dover, Delaware 19903

City of Dover
Annual Engineering Consultant's Report
Project Number 47534

Dear Mr. DePrima:

In compliance with the requirements of Section 705 and Section 504 of the City of Dover, Delaware Resolution Authorizing and Securing Electric Revenue Bonds, adopted December 23, 1985 (Resolution), Burns & McDonnell submits this Annual Engineering Consultant's Report for the fiscal year ended June 30, 2007. This report summarizes our review and assessment of the City of Dover's (City) Electric System, its existing retail electric rates, its insurance coverage in effect, and its reserve funds. Financial, statistical, and operating data used in preparing the report were taken from the City's annual financial statements and accounting records, as well as additional information furnished by City and Electric Division staff.

In the preparation of this Engineering Consultant's Report, Burns & McDonnell completed assessments of the electric generating stations and the transmission and distribution system of the City's Electric Division. Assessments involved interviews, observations, and review of fiscal year 2007 expenditures and fiscal year 2008 budgets. In addition, an analysis of the balances of the Improvement and Extension Fund, as well as other funds benefiting the Electric Division was performed. Burns & McDonnell also reviewed the adequacy of the revenues provided by the current retail rates in relation to the requirements of the Resolution. Finally, a high-level assessment of the City's insurance coverage related to the Electric Division was completed.

Based on these reviews and assessments, it is the opinion of Burns & McDonnell that the Electric System is being operated and maintained, including replacements and upgrades, as appropriate, in a manner that is consistent with current electric utility practices. In addition, the current retail rates have provided sufficient revenues to satisfy the debt service coverage requirement in the Resolution.

Further, it is the opinion of Burns & McDonnell that the balances in the various reserve funds maintained by the City for the Electric Division are sufficient for their intended purposes.



December 21, 2007
Page 2

We appreciate the cooperation and assistance provided by the City and the Electric Division staff in the preparation of this report. We will be happy to discuss the report with you at your convenience.

Sincerely,
BURNS & McDONNELL

A handwritten signature in black ink that reads "Ted J. Kelly". The signature is written in a cursive style with a large, sweeping flourish at the end.

Ted J. Kelly
Project Manager
Business & Technology Services

A handwritten signature in black ink that reads "Adam Young". The signature is written in a cursive style with a large, sweeping flourish at the end.

Adam Young
Project Engineer
Business & Technology Services

TABLE OF CONTENTS

	<u>Page No.</u>
EXECUTIVE SUMMARY	
Introduction.....	ES-1
Electric System Overview and Assessment	ES-1
Financial Assessment.....	ES-4
Conclusions.....	ES-6
PART I - INTRODUCTION	
Purpose of Report	I-1
Organization.....	I-2
PART II – ELECTRIC SYSTEM OVERVIEW AND ASSESSMENT	
Electric System Overview.....	II-1
Production Plant	II-1
Transmission and Distribution Plant	II-4
General Plant	II-4
Electric System Assessment.....	II-5
Electric Generating Stations	II-5
Description of Generating Stations	II-5
Management and Organization.....	II-6
Major Equipment Condition and Improvements	II-7
Transmission and Distribution Systems	II-11
System Reliability	II-12
Power Quality.....	II-12
Operations and Maintenance	II-12
Design Standards and Specifications.....	II-13
Transmission and Distribution Improvements.....	II-14
System Tour	II-15
Conclusions	II-15
PART III – FINANCIAL ASSESSMENT	
Financial Results.....	III-1
Required Revenue Level.....	III-1
Electric Rates	III-2
Operating Results.....	III-2
Adequacy of Electric Rates	III-9
Status of Revenue Bonds	III-12
Insurance.....	III-12
Operating and Reserve Funds	III-15
PART IV – CONCLUSIONS	

LIST OF TABLES

<u>Table No.</u>		<u>Page No.</u>
II-1	Year-End Plant in Service Fiscal Years 2005 – 2007	II-2
II-2	Planned Capital Expenditures – Fiscal Year 2008.....	II-3
II-3	Fiscal Year 2007 Operating Results	II-7
III-1	Annual Sales and Customers Fiscal Years 2005 – 2007.....	III-3
III-2	Annual Revenues and Sales Ratios Fiscal Years 2005 – 2007	III-5
III-3	Net Revenue Margins and Unaccounted For Energy Fiscal Years 2005 – 2007.....	III-6
III-4	Comparative Statement of Revenues, Expenses, and Changes in Unreserved Retained Earnings Fiscal Years 2005 – 2007	III-8
III-5	Debt Service Coverage Calculation Per Section 502 of Resolution Fiscal Years 2005 – 2007	III-10
III-6	Amortization Schedule of Electric Revenue Bonds Outstanding	III-11
III-7	Schedule of Insurance Coverage in Effect.....	III-13
III-8	Reserve Fund Activity and Balances Fiscal Years 2005 – 2007	III-18

LIST OF FIGURES

<u>Figure No.</u>		<u>Page No.</u>
I-1	Organization	I-4
I-2	Administration	I-5
I-3	Electric Engineering	I-6
I-4	Electric Transmission & Distribution.....	I-7

EXECUTIVE SUMMARY

EXECUTIVE SUMMARY

INTRODUCTION

This Engineering Consultant's Report has been prepared in compliance with the requirements of the City of Dover, Delaware Resolution Authorizing and Securing Electric Revenue Bonds, adopted December 23, 1985 (Resolution). Burns & McDonnell has been retained as Engineering Consultant by the City of Dover, Delaware (City) for this purpose.

The Resolution requires that the Engineering Consultant complete the following:

“The City covenants that it will cause the Engineering Consultants employed under the provisions of Section 705 of this Resolution . . . to make an inspection of the Electric System at least once each fiscal year and . . . to submit to the City Manager a report setting forth (a) their findings whether the properties of the Electric System have been maintained in good repair, working order and condition and whether they have been operated efficiently and economically and (b) their recommendation as to

- (i) the proper maintenance, repair and condition of the Electric System during the ensuing fiscal year and a estimate of the appropriations which should be made for such purposes,*
- (ii) the insurance to be carried under the provisions of Article VII of this Resolution,*
- (iii) the amount that should be deposited during the ensuing fiscal year to the credit of the Improvement and Extension Fund for the purposes set forth in Section 510 of this Article,*
- (iv) the extensions, improvements, renewals and replacements which should be made during the ensuing fiscal year, and*
- (v) any necessary or advisable revisions of the electric rates.”*

This is the sixth annual Engineering Consultant's Report prepared for the City by Burns & McDonnell.

ELECTRIC SYSTEM OVERVIEW AND ASSESSMENT

The Electric System owned by the City primarily consists of production plant, transmission plant, distribution plant, and general plant facilities.

The City owns two power plants, the McKee Run Generating Station (McKee Run) and the VanSant Generating Station (VanSant). McKee Run consists of three steam turbine generating units with total combined capacity of 136 megawatts (MW). VanSant is a 39 MW simple-cycle combustion turbine unit.

The Electric Division purchased its power requirements under an all-requirements power and energy supply contract with Duke Energy Trading & Marketing (Duke) in FY 2006. The contract was executed on March 11, 1996 and expired on June 30, 2006. Effective May 4, 2006 the City entered into a five year Energy Management Agreement with PACE Global Asset Management (Pace), LLC of Fairfax, Virginia to assist the City with its energy procurement, energy sale, purchase of fuels, establishment and management of risk policies, to develop and manage hedging protocols and related energy procurement challenges.

Duke/Fluor Daniel (D/FD) assumed responsibility for operating and maintaining the City's two power plants under a separate agreement also dated March 11, 1996. These agreements provided for the City to retain complete ownership of the two generating stations. The partnership between D/FD was dissolved as of September 13, 2004. The two power plants were operated by DE Operating Services, LLC (DEOS) in FY 2006. As of July 1, 2006, North American Energy Services (NAES) began operating the plants.

The Electric Division served approximately 22,400 customers, approximately 18,800 of which were residential customers, as of the end of FY 2007. The distribution facilities include 221.11 miles of overhead lines and 230.35 miles of underground lines connected through fifteen different substations. The Engineering Consultant's observations regarding the transmission and distribution systems are described in the Electric System Overview and Assessment section of this report.

Four of the Electric Division customers take service off of the 69 kV transmission system. These customers include the Dover Air Force Base, Kraft, Proctor & Gamble, and NRG Energy Center (NRG). NRG is an exempt wholesale generator that sells power that must be transmitted through the City's transmission system to third party purchasers. When the NRG plant is not operational, the Electric Division provides power for the plant site.

The Electric Division has one contract for providing transmission service through the Electric System. As mentioned above, the Electric Division provides transmission service to NRG for the output of its 16 MW electric generator.

General plant facilities consist primarily of Electric Division administrative and operations facilities and pollution control related equipment on McKee Run and VanSant. Other types of general plant include office furniture and equipment, transportation and power-operated equipment, and communication equipment.

The various systems and components of the generating stations reviewed by the Engineering Consultant are listed below:

Management and Organization

- Safety
- Training

Major Equipment Condition and Improvements

- Steam turbines/generators
- Boilers and auxiliaries
- Station cooling water systems
- Fuel handling systems
- Water treatment systems
- Station electrical systems
- Station control systems
- General facilities

Based on statements and information provided, as well as the observations and reviews performed, it is the Engineering Consultant's opinion that the City's power generation facilities are being operated and maintained consistent with accepted electric utility practice in the United States. In general, the performance, operation, maintenance, staff, planning, and training aspects for the McKee Run and VanSant were found to be above average. Specifically, the generation facilities have demonstrated a high level of availability despite the dispatching of the units primarily for peak demand.

The Engineering Consultant's observations regarding the generating stations and units are described in the Electric System Overview and Assessment section of this report. The following list includes areas of the transmission and distribution system that were considered and reviewed.

- System reliability
- Power quality

- Operations and maintenance
- Design standards and specifications
- Transmission and distribution improvements

It is the Engineering Consultant's opinion that the design, construction, operation, and maintenance of the City's electric transmission and distribution system and the associated facilities are consistent with current generally accepted electric utility standards.

The Engineering Consultant's observations regarding the transmission and distribution systems are described in the Electric System Overview and Assessment section of this report.

FINANCIAL ASSESSMENT

The level of revenues required from the retail electric rates for the Electric Division were determined through the analysis of the financial results and net income or net margins for FY 2007. The Resolution requires that the Electric Division maintain a debt service coverage ratio of 1.25. Following is an excerpt from Section 502(c) of the Resolution.

“(c) The total amount of the Revenues of the Electric System during the preceding fiscal year shall have been not less than the total of the following:

(1) The Current Expenses of the Electric System during the current fiscal years shown by the Annual Budget . . . for such fiscal year, and

(2) One hundred twenty-five percent (125%) of the maximum amount of the Principal and Interest Requirements for any fiscal year thereafter on account of all bonds then Outstanding under the provisions of this Resolution.”

Customers of the Electric Division of the City were charged for the electric service they received based on the City's rate schedules and contracts that were in place in FY 2007. A rate study was completed during the last portion of FY 2006. This study was necessary to address increased costs associated with the new power supply contract that became effective July 1, 2006. The rate study recommended combining a number of rate classes and increasing rates to provide for the necessary increase in revenues to meet increased costs. A second rate increase was recommended for January 1, 2007 in order to cover increased costs associated with operating the generating station.

Total energy sales increased from approximately 731.6 million kilowatt-hours (kWh) in FY 2005 to approximately 734.1 million kWh in FY 2007, or average annual increases of 0.11 percent. Total revenues from sales to electric customers in FY 2007 were approximately \$83.1 million, representing an average annual increase of 11.37 percent from the FY 2005 rate revenue of approximately \$60.1 million. In FY 2007, the average price per kWh for residential customers was 12.40 cents and the system-wide average price was 11.32 cents per kWh.

The Electric Division's largest cost providing electric service to its customers is the wholesale cost of power, purchased from the Pennsylvania New Jersey Maryland Interconnection (PJM) marketplace by its Energy Manager, Pace. From FY 2005 to FY 2007, the cost of power increased at an average annual rate of approximately 21.3 percent from approximately \$39.6 million to approximately \$70.7 million. This reflects PJM wholesale power prices as compared to the long-term fixed power price that Dover had in place for ten years under the previous Duke contract, which expired at the end of FY 2006. The recent reset of wholesale power prices reflects long-term market price increases. Over the same period the volume of energy purchased increased from approximately 768.6 million kWh to approximately 788.8 million kWh.

Net income increased from approximately \$2.4 million in FY 2005 to approximately \$4.7 million in FY 2006. Net income decreased from FY 2006 to FY 2007 to a \$3.8 million loss in FY 2007. This loss was primarily due to the increased cost of purchased power.

The Resolution requires that annual revenues of the Electric Division be no less than the total current expenses plus 125 percent of the greatest remaining annual debt service. The Electric Division achieved debt service coverage ratios for FY 2005, FY 2006 and FY 2007 of 4.51, 5.50, and 1.74, respectively; all of which were over the required 125 percent. Therefore, the revenues generated by the current electric rates have been sufficient to meet the applicable covenant of the Resolution.

The City maintains a comprehensive insurance program to insure against varying types of liabilities, as well as significant losses related to various Electric Division properties. It is the opinion of Burns & McDonnell as Engineering Consultant, and not as insurance counselor, the insurance in full force and affect appears to satisfy the requirements of Section 706 of the Resolution.

The City has established several funds and reserves to ensure that moneys are available for specific purposes when they are needed. Following is a list of these funds:

- Electric Revenue Fund
- Electric Improvement and Extension Fund
- Interest and Sinking Fund (Reserve Account)
- Depreciation Reserve Fund
- Future Capacity Fund
- Insurance Stabilization Fund
- Contingency Reserve Fund
- Electric Rate Revenue Fund

The Engineering Consultant reviewed the last five funds listed above and found that the balances in those funds as of June 30, 2007 were consistent with the required or target balances.

CONCLUSIONS

Based on the reviews and assessments completed, it is the opinion of Burns & McDonnell that:

1. The City's power generation facilities are being operated and maintained consistent with accepted electric utility practice in the United States.
2. The design, construction, operation, and maintenance of the City's electric transmission and distribution system and the associated facilities are consistent with current generally accepted electric utility standards.
3. The Electric Division capital projects included in the City's Capital Investment Plan and the FY 2008 Operating Budget are necessary and should provide improved reliability and power quality for the Electric System.
4. The balances as of June 30, 2007 for the various reserve funds maintained by the City for the Electric Division appear to be sufficient for their defined purposes.
5. The insurance coverage in full force and effect as maintained by the City related to the various assets of the Electric Division appears to satisfy the requirements of Section 706 of the Resolution.
6. The electric revenues generated by the City's current retail rates are more than sufficient to fulfill the debt service coverage requirement (125 percent) defined in Section 502(c) of the Resolution.

PART I - INTRODUCTION

PART I INTRODUCTION

The City of Dover, Delaware (City) operates a municipally-owned electric utility system that serves approximately 22,400 customers within the City and the surrounding areas. The service area of the electric utility is located in the middle portion of the state of Delaware, with the City itself located approximately 70 miles south of Philadelphia, Pennsylvania.

PURPOSE OF REPORT

This report has been prepared in compliance with the requirements of the Resolution adopted December 23, 2005. Burns & McDonnell has been retained as Engineering Consultant by the City as defined in Section 705 of the Resolution, as follows.

“The City covenants that it will, for the purpose of performing and carrying out the duties imposed on the Engineering Consultants under the provisions of this Resolution, employ an independent engineer or engineering firm or corporation having a nationwide and favorable repute for skill and experience in such work.”

The required scope of this report is described in Section 504 of the Resolution, as follows.

“The City covenants that it will cause the Engineering Consultants employed under the provisions of Section 705 of this Resolution . . . to make an inspection of the Electric System at least once each fiscal year and . . . to submit to the City Manager a report setting forth (a) their findings whether the properties of the Electric System have been maintained in good repair, working order and condition and whether they have been operated efficiently and economically and (b) their recommendation as to

- (i) the proper maintenance, repair and condition of the Electric System during the ensuing fiscal year and a estimate of the appropriations which should be made for such purposes,*
- (ii) the insurance to be carried under the provisions of Article VII of this Resolution,*
- (iii) the amount that should be deposited during the ensuing fiscal year to the credit of the Improvement and Extension Fund for the purposes set forth in Section 510 of this Article,*
- (iv) the extensions, improvements, renewals and replacements which should be made during the ensuing fiscal year, and*

(v) *any necessary or advisable revisions of the electric rates.*”

ORGANIZATION

The Public Utilities Director is responsible for the overall management of the Public Utilities Department. The Public Utilities Director oversees the day-to-day operations of the Electric, Water, and Wastewater Divisions and manages the Division's staff. The Director also provides oversight of the Power Plant budget and monitors the contracts with PACE Global Asset Management (Pace), the energy coordinator, and North American Energy Services (NAES), the power generation operator/manager. The Electric Division is organized into three separate operating sections. Descriptions of the current Electric Division sections are provided below.

Administration Section – The Administration Section provides the overall administration of the Electric Division's Engineering and Transmission & Distribution Sections. This section performs all planning and budgeting, monitors all construction projects, administers all power supply and generating station operations agreements, and coordinates with customer service and public relations for the Electric Division.

Electric Engineering Section - This Section provides design, specifications, construction management, and project inspection for all capital investment projects of the Electric Division. This section also develops and maintains maps, plans, and specifications, as well as engineering standards for construction and maintenance of the Electric System. Lastly, it is responsible for the operation of a 24x7 system operations control center which is referred to as System Operations.

Transmission & Distribution Section – The Transmission & Distribution Section constructs, operates, and maintains the overhead and underground Electric Systems and fiber optic communication facilities. This section installs and maintains all electric metering, as well as street and security lighting. This section also investigates and resolves customers' power problems and oversees the work of tree trimming contractors.

Figures I-1 through I-4 present an organization charts showing the staffing of the various sections in the Electric Division, with the number of individuals in each position indicated. Total staffing at the time the FY 2008 budget was issued was 51.

The remaining sections of this report provide the information required pursuant to Section 504 of the Resolution. Part II describes the assessment of the Electric System and its condition. Part III presents the

financial results for the Electric Division, including an analysis of the adequacy of revenues provided by the electric rates.

In the preparation of this report, Burns & McDonnell used the City's audited financial statements and other data and information provided by the City. Burns & McDonnell has relied on the information provided without independent verification and cannot guarantee its accuracy or completeness. In addition, Burns & McDonnell has used the information provided to make certain assumptions with respect to conditions that may exist in the future. While Burns & McDonnell believes the assumptions made are reasonable for the purposes of this report, it makes no representation that the conditions assumed will occur.

* * * * *

Figure I-1

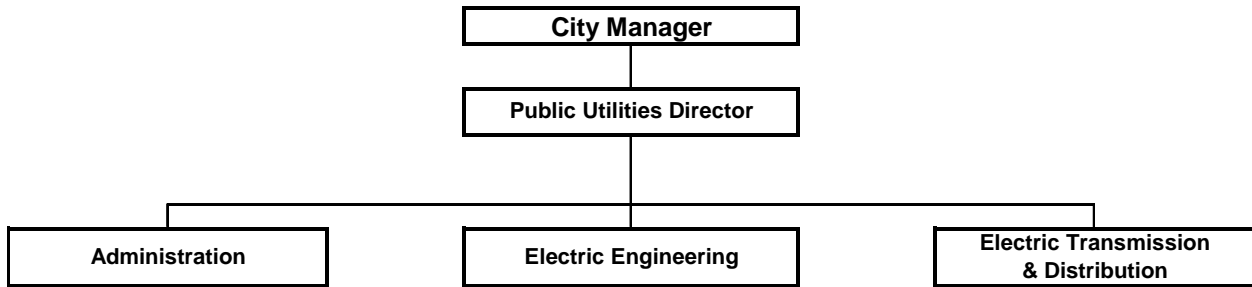


Figure I-2

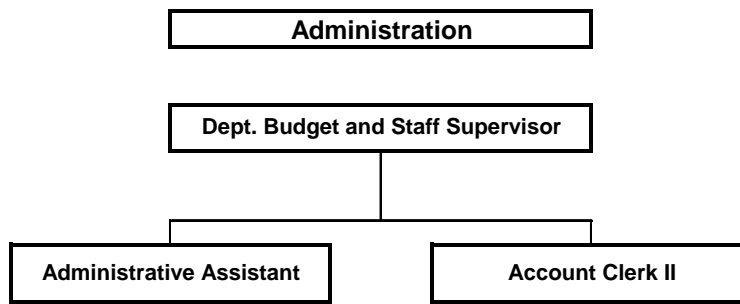


Figure I-3

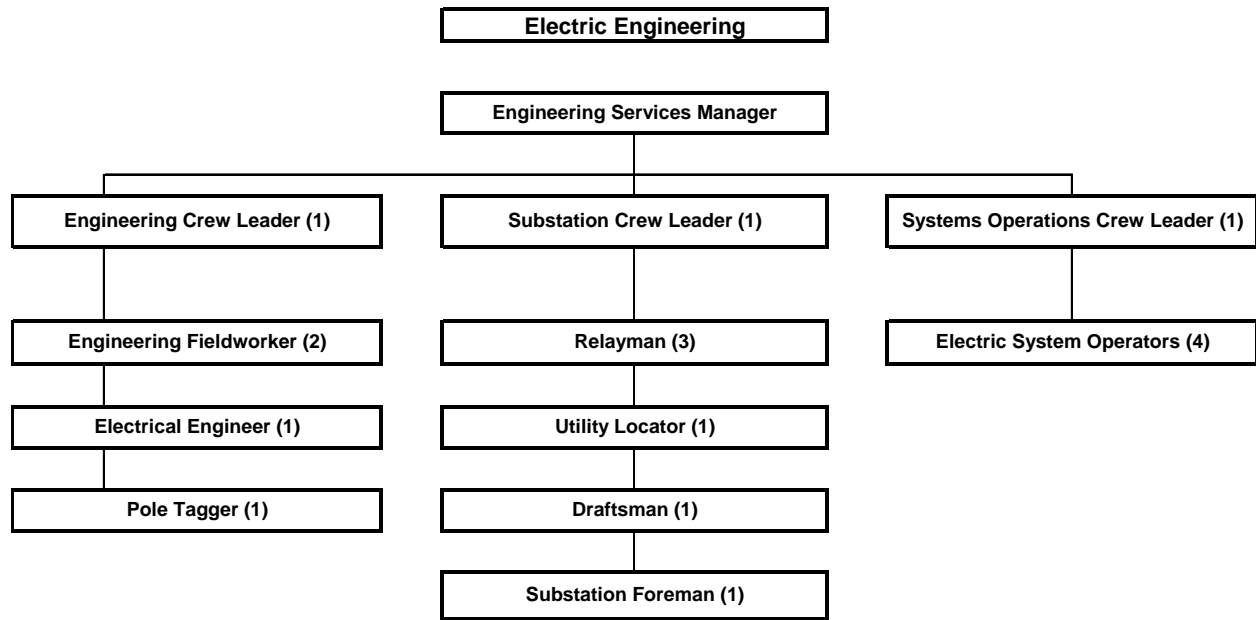
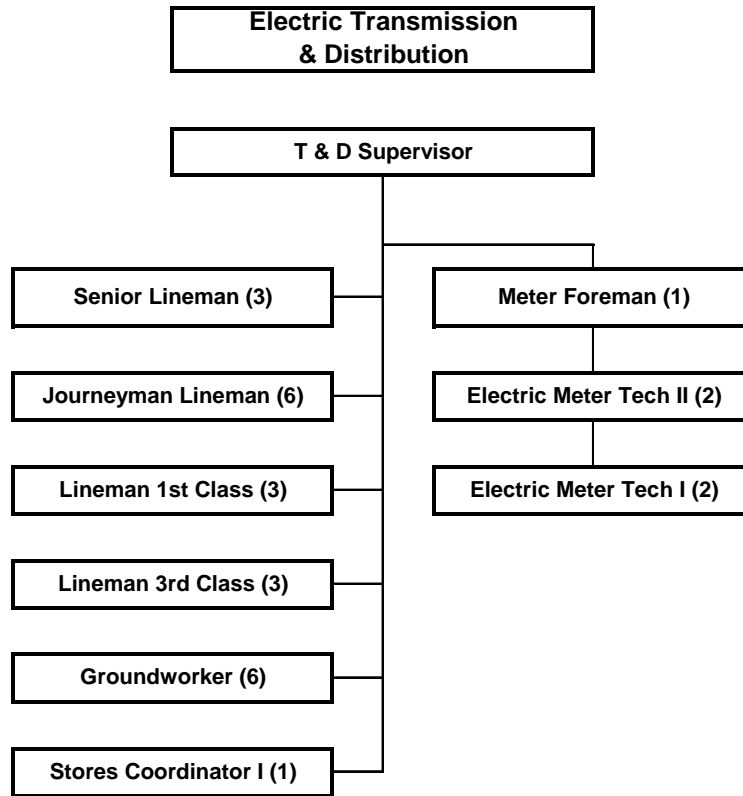


Figure I-4



PART II – ELECTRIC SYSTEM OVERVIEW AND ASSESSMENT

PART II

ELECTRIC SYSTEM OVERVIEW AND ASSESSMENT

ELECTRIC SYSTEM OVERVIEW

The Electric System owned by the City of Dover, Delaware (City), primarily consists of production plant, transmission plant, distribution plant, and general plant facilities. Table II-1 shows the year-end balances of the various plant components within the above categories for FY 2005 through FY 2007. Table II-2 itemizes the specific capital investment plan projects and anticipated expenditures for FY 2008, as well as projections for other components included in the FY 2008 budget.

Production Plant

The City owns two power stations, the McKee Run Generating Station (McKee Run) and the VanSant Generating Station (VanSant). McKee Run consists of three steam turbine generating units with total combined capacity of 136 megawatts (MW). VanSant is a 39-MW simple-cycle combustion turbine unit.

The Electric Division purchased its power requirements under an all-requirements power and energy supply contract with Duke Energy Trading & Marketing (Duke) in FY 2006. The contract was executed on March 11, 1996 and expired on June 30, 2006. Effective May 4, 2006 the City entered into a five year Energy Management Agreement with PACE Global Asset Management (Pace), LLC of Fairfax, Virginia to assist the City with its energy procurement, energy sale, purchase of fuels, establishment and management of risk policies, to develop and manage hedging protocols and related energy procurement challenges.

Duke/Fluor Daniel (D/FD) assumed responsibility for operating and maintaining the City's two power plants under a separate agreement also dated March 11, 1996. These agreements provided for the City to retain complete ownership of the two generating stations. The partnership between D/FD was dissolved as of September 13, 2004. The two power plants were operated by DE Operating Services, LLC (DEOS) in FY 2006. As of July 1, 2006, North American Energy Services (NAES) began operating the plants. The Engineering Consultant's observations regarding the generating stations and units are described in the Electric System Assessment section below.

Table II-1

**YEAR-END PLANT IN SERVICE
FISCAL YEARS 2005 - 2007
City of Dover Electric Division**

	Plant in Service Year-End Balance		
	FY 2005	FY 2006	FY 2007
Production			
Land and land rights	\$1,488,382	\$1,488,382	\$1,488,382
Boiler plant equipment	15,259,321	15,259,321	15,259,321
Turbogenerator units	20,398,643	20,398,643	20,398,643
Accessory electric equipment	4,491,314	4,491,314	4,491,314
Miscellaneous steam plant equipment	17,985,283	17,985,283	17,985,283
Miscellaneous other plant equipment	791,284	791,284	791,284
Total Production	\$60,414,227	\$60,414,227	\$60,414,227
Transmission			
Station equipment	\$17,581,238	\$17,589,997	\$12,252,863
Overhead conductors and devices	6,057,818	6,213,279	7,011,175
Underground conductors and devices	2,731,251	2,731,251	2,731,250
Total Transmission	\$26,370,307	\$26,534,527	\$21,995,288
Distribution			
Station equipment	\$7,163,415	\$7,172,174	\$12,169,662
Overhead conductors and devices	4,995,894	4,995,894	4,979,196
Underground conductors and devices	9,487,621	10,822,210	11,587,196
Line transformers	8,043,108	8,237,677	9,037,744
Meters	2,954,619	3,497,876	3,546,546
Street lighting and signal systems	1,391,523	1,480,678	1,490,507
Total Distribution	\$34,036,180	\$36,206,509	\$42,810,852
General Plant			
Structures and improvements	\$14,464,266	\$14,435,009	\$14,530,780
Office furniture and equipment	497,870	497,870	483,750
Transportation equipment	494,384	480,795	695,348
Power operated equipment	20,000	20,000	20,000
Communication equipment	1,083,691	1,083,691	1,088,079
Miscellaneous equipment	4,447,176	4,933,079	4,585,942
Total General Plant	\$21,007,387	\$21,450,444	\$21,403,899
Total Plant in Service	\$141,828,102	\$144,605,709	\$146,624,266
Construction Work in Progress	\$819,813	\$762,121	\$1,331,652
Total Plant	\$142,647,916	\$145,367,832	\$147,955,920

Table II-2

PLANNED CAPITAL EXPENDITURES - FISCAL YEAR 2008
City of Dover Electric Division

Capital Investment Plan Projects	Plant in Service Year-End Balance	
Engineering		
Lebanon Transformer	\$637,950	
Mayfair Substation - 69kV/12kV	\$65,000	
69 KV Feeders 3 and 4	9,457,788	
Distribution Capacitors	225,000	
Transmission Relaying, Replacement and Calibrations	520,000	
College Road Distribution Substation	2,435,000	
Distribution Upgrades	300,000	
Replacement of 69 kV Breakers	183,000	
Horsepond 600 Transformer	325,000	
Lighting Project and Rehab	100,000	
Governors Avenue Rebuild	2,068,260	
St. Jones Substation	<u>2,166,039</u>	<u>\$18,483,037</u>
Transmission and Distribution		
New Developments	\$1,015,000	
Radio Read Meters Change Out	<u>545,000</u>	<u>\$1,560,000</u>
Vehicles		
Electric Engineering	\$23,000	
Electric Transmission & Distribution	<u>40,000</u>	<u>\$63,000</u>
Power Plant		
McKee Run Fuel Oil Tank	\$300,000	
McKee Run Fire Protection System Upgrades	50,000	
VanSant COMS Replacement	27,000	
McKee Run Unit 3, Selective Non-Catalytic Reduction System	<u>400,000</u>	<u>\$777,000</u>
Total Capital Investment Plan Projects		\$20,883,037

The highest system peak demand experienced on the Electric System occurred on August 3rd 2006 when the total load reached 177.54 MW. For FY 2007, the Electric Division had total energy sales of approximately 734.1 gigawatt-hours (GWh). Annual energy sales are projected by the Electric Division to grow from FY 2008 through FY 2012 at a compound annual rate of approximately 1.0 percent.

Transmission and Distribution Plant

The service area includes 221.11 miles of overhead lines and 230.35 miles of underground lines. The Engineering Consultant's observations regarding the transmission and distribution system are described in the Electric System Assessment section below.

Four Electric Division customers take service off of the 69-kV transmission system. These customers include the Dover Air Force Base, Kraft, Proctor & Gamble, and NRG Energy Center (NRG). NRG is an exempt wholesale generator that sells power that must be transmitted through the City's transmission system to third party purchasers. When the NRG plant is not operating the Electric Division provides power for the plant site.

The Electric Division has two contracts for providing transmission service through the Electric System. As mentioned above, the Electric Division provides transmission service to NRG for the output of its 16-MW electric generator and it has a point to point contract for the output of an NRG Combustion Turbine which ties directly to the Kent Substation and is not part of the Dover Transmission system.

General Plant

The general plant category consists primarily of Electric Division administrative and operations facilities and pollution control related equipment on McKee Run and VanSant. The City's agreement with DEOS was that DEOS assumed responsibility for the costs of all replacements and upgrades required to maintain the capability of the two stations, except that the City was responsible for the costs of compliance with new regulations promulgated after the start of the operations and maintenance contract. The agreement with NAES is that they will manage the operation and maintenance of the facilities and the City will be responsible for the costs of all replacements and upgrades required to maintain the capability of the two stations. The City will also continue to be responsible for the costs of compliance with new regulations promulgated after the start of operations and maintenance contract. Other types of items included in general plant include office furniture and equipment, computer-related equipment, transportation and power-operated equipment, and communication equipment. Burns & McDonnell did not specifically assess the items in the general plant category.

ELECTRIC SYSTEM ASSESSMENT

Burns & McDonnell, Engineering Consultant to the City, performed observations and assessments of the Electric System assets in support of the development of this annual Engineering Consultant's Report. The findings from the review of the City's Electric System are documented in this section of the report.

Electric Generating Stations

On December 3, 2007, Mr. Ted Kelly and Mr. Adam Young of Burns & McDonnell met with representatives of NAES to discuss the condition of McKee Run and VanSant, both of which are owned by the City. Mr. Phil Kosek, Acting Plant Manager, coordinated the visit and arranged for the following additional NAES personnel to be available for the meeting.

- Mr. Kenneth Beard, O&M Manager
- Mr. Paul Greenage, Maintenance Supervisor
- Mr. Dewey Ray Lavender, Operating Supervisor

Description of Generating Stations: McKee Run consists of three units. Unit 1 and Unit 2 were originally coal-fired units, which commenced operation in 1961 and 1962, respectively. In 1972, these units were converted to burn No. 6 fuel oil. These units are rated at 17 MW each. Unit 3 commenced operation in 1975 and was designed to fire No. 6 fuel oil and natural gas. Unit 3 is rated at 102 MW. Currently, each of the units has dual fuel usage capability, No. 6 fuel oil and/or natural gas. VanSant consists of a simple cycle combustion turbine rated at 39 MW in the summer and 40 MW in the winter. This unit commenced operation in 1991. VanSant is normally unmanned, except when it is dispatched into service. Personnel from McKee Run are sent to VanSant to startup and operate the unit.

Prior to 1996, these generation facilities were operated and maintained by the Electric Division. In 1996, the City contracted with Duke/Louis Dreyfus (D/LD) to operate and maintain the facilities. In turn, D/LD signed an agreement with D/FD to operate and maintain the Stations. The partnership between Duke and Fluor Daniels was dissolved in September 2004. The two Stations were then operated by DEOS. As of July 1, 2006 the two Stations have been operated by NAES with the same personnel previously working for DEOS. It should be noted that three positions were eliminated from the organization chart during the transition to NAES.

Management and Organization: Station management appeared very well organized and knowledgeable, and presented a logical approach to operation and maintenance of the generation facilities. Mr. Phil Kosek serves as the Acting Plant Manager while fulfilling his duties as the Administrative & Employee Health and Safety (EHS) Manager. The management/leadership team consists of Mr. Kosek and eight other personnel. Reporting to Mr. Kosek are the positions of Administrative Assistant, Material Coordinator, and O&M Manager. The O&M Manager oversees a Maintenance Supervisor, and four Operations teams. Each operations team consists of the supervisor and four operators working 12-hour rotating shifts. The maintenance team consists of a supervisor and six employees working 10-hour shifts. The operations and maintenance personnel are all union employees and the relationship between the union and management continues to be reported as excellent. McKee Run is currently at a staff level of 28 employees. There are currently two open positions for an operator, one open position for an I,C/E Technician, and one open position for Plant Manager.

Safety: Safety is of paramount importance to the entire Station staff. In FY 2007 there were no reportable injuries. “Safety First” is an overall theme and attitude. Near-miss incidents are documented, reviewed, and corrective follow-up actions taken as required. An employee-run safety committee is actively in place. This committee conducts monthly safety meetings, completes safety equipment inspections, and defines and implements tasks to improve safety in all areas. Safety is the first topic discussed at all meetings. Employees participated in creating an indoctrination video emphasizing safety that is shown to all visitors when entering the Station.

Training: The required annual OSHA compliance training is completed and documented for each employee. A formal two-day employee orientation program is required for all new employees. This orientation covers a multitude of subjects from employee benefits to a review of the various Station operating manuals. For operator training, the Employee Development and Qualification Program (EDQP) has been established. EDQP is a formal program for training operators to progressively advance to positions having additional responsibilities. In addition to the above programs, cross training of various disciplines also occurs. An example is electricians cross training with instrumentation and control (I&C) craft and vice versa.

Major Equipment Condition and Improvements: In general, the generation facilities are properly maintained and operated and in very good condition as evidenced by the high availability of the units. The generation facilities are dispatched sparingly and operate primarily as peaking units. As such, the individual units incur a relatively large number of starts per year. Table II-3 summarizes the major FY 2007 Operating Results:

Table II-3
Fiscal Year 2007 Operating Results

Unit Number	Rated MW Capacity	Operating Hours	Net MWh Production	Number of Starts	Net Capacity Factor [1]	Service Factor [2]
McKee Run						
1	17	184.1	1,407	6	0.94%	2.10%
2	17	190.0	1,482	5	1.00%	2.17%
3	102	526.4	24,171	32	2.71%	6.01%
VanSant [3]	39	124.0	3,870	38	1.13%	1.42%
Total	175	1024.5	30,930	81	2.02%	2.92%

[1] Net Capacity Factor = [Net MWh Production / (Total Available Hours * Rated MW Capacity)] * 100

[2] Service Factor = (Operating Hours / Total Available Hours) * 100

Total Available Hours = 365 days, 24 hours/day

[3] VanSant is rated at 40 MW in the winter and 39 MW in the summer

The large amount of time that units are not operating allows for maintenance and repair of the units. As a result, the overall equivalent availability factor for the generation facilities was well above 90 percent. It should be noted that the low net capacity factors are partially off set by the Pennsylvania New Jersey Maryland Interconnection (PJM) capacity credits. The capacity credits covered a portion of the fixed operating and maintenance costs in FY 2007 and will provide approximately \$5 million in net revenue in FY 2008.

Maintenance activities are organized, planned, and managed using a computer based system, Maximo. Using this system, all three major categories of maintenance activities (corrective, preventative, and predictive) are managed.

For corrective maintenance activities, any Station operator or mechanic can enter a work order into the system at any terminal on the Station local area network (LAN). A supervisor reviews the request, turns it into a work order, and assigns a priority according to a predetermined categorization. The work order is then assigned to an operator or maintenance technician for completion.

This system is also used to manage and track preventative maintenance activities that follow a schedule. Changing filters, turning on and off heat tracing are examples. Predictive maintenance activities practiced include oil analyses, vibration testing, and infrared surveys. Recently, portable vibration testing equipment was purchased. This equipment will improve the frequency of and capabilities to trouble-shoot rotating equipment to identify problems and take corrective actions before equipment failure occurs.

The following is a summary of the condition assessment of McKee Run major equipment and VanSant as presented by the NAES staff. Burns & McDonnell made no internal assessments of equipment during the facility tour.

Steam Turbines/Generators: The steam turbines and generators for Units 1, 2, and 3 were reported to be in satisfactory condition with no major problems. No major repairs or replacements are expected or required for the turbine/generators in the next fiscal year.

Boilers and Auxiliaries: Boiler inspections are conducted every year on each of the boilers. Each fiscal year, the inspections on each boiler typically include the inspection and cleaning of the major boiler components, including the mud and steam drums, the forced draft and induced draft fans, the windbox, condenser water box, condenser tubes, hotwell, air preheater components, and safety valves. Minor routine maintenance repairs and replacements were completed during the annual planned outages in FY 2007. No major capital projects were completed.

Unit 3 had two outage events in FY 2007. The first outage which occurred on June 15th was due to the unit tripping on an oil / steam differential pressure on A burner deck. This took out all three burner decks and the low oil header pressure. The plant staff corrected the problem expediently and brought the unit online within 45 minutes. The second outage which occurred on June 27th was due to a faulty servo valve on the main steam stop valve. The faulty valve was replaced and the scheduled startup was completed the next morning as planned.

In order to comply with Delaware Regulation 1146, the City must install an Selective Non-Catalytic Reduction System on Unit 3. This system is used to remove NO_x from the flue gas prior to leaving the stack. The costs are divided into two years with engineering and design costs in FY 2008 and construction and design in FY 2009. Failure to comply with Regulation 1146 could result in monetary fines from DNREC.

Station Cooling Water Systems: The Station has split cooling water systems with one system serving Unit 1 and Unit 2 and a separate system serving Unit 3. The cooling water systems are reported to be sufficiently sized and in satisfactory condition, with no major issues reported at the time of this report.

Fuel Handling Systems: Natural gas comes into the station in a 4-inch diameter pipeline for Unit 1 and Unit 2 and in a 10-inch diameter pipeline for Unit 3. Fuel oil is delivered to the station and unloaded into tanks. Two natural gas-fired boilers heat the oil lines and storage tanks. Forwarding pumps deliver the oil to each of the units. These systems are reported to be in satisfactory condition, with no major problems reported. Gas meters were installed on the hot water boiler gas supply lines to monitor the amount of gas going to each boiler.

The Plant will be cleaning and inspecting the 2.5 million gallon fuel oil tank at McKee Run in FY 2008. The above ground storage tank regulations require periodic out-of-service (empty) inspection by June 30, 2007. The Plant has applied for and received an extension of one year. The cleaning and inspection of the 2.5 million gallon fuel oil tank was completed in November 2007, ahead of schedule.

Water Treatment/Steam Purity: Quality control parameters for boiler feed-water, internal boiler water, cooling tower water, and steam purity are checked at a minimum of twice per day when systems are operating. Results are recorded and graphically compared to control limits. Adjustments are then made as required. Boiler feed water is treated city water (well water from City) using a regenerative ion resin demineralizer system, along with deaeration for oxygen control. Boilers 1 and 2 use a coordinated phosphate control for boiler internal purity control and Boiler 3 uses a balanced trisodium phosphate and disodium phosphate within a narrow pH range. A deep-bored water well was installed to provide water in addition to the city supplied water. City water has a high chlorine level which may exceed the Station permitted limits. By combining city water with the well water, the chlorine levels can be maintained at the permitted limits. Water for cooling tower makeup is also obtained from City water. The primary control parameter is silica concentration. Blow down is adjusted as required to maintain control. No major issues were reported at the time of this report.

Steam purity is not continuously monitored. Samples are taken twice daily and tested for pH, conductivity, and silica. There have not been any problems with steam purity. Annual inspections of the boiler drums and separation internals have verified that these systems are intact and operating properly. The station has not experienced any internal corrosion related failures, steam path deposits, or excessive condenser fouling. NALCO provides water treatment consulting services and chemicals. A representative visits the station once per week to review test data and check chemical usage rates. No major issues were reported at the time of this report.

Station Electrical Systems: Station electrical systems and transformers are considered to be in satisfactory condition. No major repairs or replacements are expected or required for the station electrical systems in the next fiscal year. A condition assessment of the generation facilities' transformers was conducted in FY 2007 and oil inspections and analyses were made. No major issues were reported.

Station Control Systems: Unit 1 and Unit 2 controls are electro-pneumatic and Unit 3 controls are a distributed control system (DCS). In general the station control systems are considered to be in satisfactory condition. The Unit 1 and Unit 2 control systems are outdated but perform satisfactorily. Any long-term operation plans for these two units should include consideration of an upgrade of the control systems. All relays were inspected at both McKee Run and VanSant for NERC, PJM and MAAC compliance. No major issues were reported.

General Facilities: No major projects or improvements were completed to the General Facilities in FY 2007 other than routine maintenance and repairs. In general, the station facilities appeared clean and well maintained during the site visit.

Both VanSant and McKee Run will be conducting an Arc Flash Analysis in FY 2009. It is currently only an OSHA recommendation that facilities perform an Arc Flash Analysis on their equipment. The engineering analysis identifies the risk of personal injury as the result of an arc flash event, provides information to employees about arc flash and identifies personal protective equipment necessary to minimize injuries.

The Plant will also be installing fire protection system upgrades for McKee Run Unit 3 per the City's insurance company's recommendations. The insurance company toured the plant and identified/recommended a need to install a manually operated foam deluge system to protect Unit 3 bearings in the event of a fire.

It is necessary to install a new computer and CEMS software for the continued operation of McKee Run Unit 3. The recommendation is to replace the existing computer and software before October 1, 2008 to ensure that the entire last quarter of the reporting period is using the new system thus minimizing the potential for reporting errors. The replacement of the CEMS equipment for McKee run is the direct result of a new EPA regulation. Compliance with the new regulation is required by January 1, 2009.

VanSant Generating Station: In general, the unit is operated infrequently, but is well maintained. Although the station is only manned when operating, an operator performs a twice daily walk through with a checklist of items to review and the results/findings are logged. In April 2007 the station underwent its annual outage. During the outage, a number of work orders were addressed including inspections, equipment calibrations, preventative maintenance, and TILS. A borescope inspection was also performed on the compressor and turbine sections.

The station will be replacing the Continuous Opacity Monitoring System (COMS) on VanSant. The current COMS is 13 years old and needs replacing. Parts for existing system are unavailable and the system is no longer supported by the OEM. This project was completed during November 2007.

It is necessary to install a new computer and CEMS software for the continued operation of the VanSant combustion turbine. The recommendation is to replace the existing computer and software before October 1, 2008 to ensure that the entire last quarter of the reporting period is using the new system thus minimizing the potential for reporting errors. The replacement of the CEMS equipment for VanSant is the direct result of a new EPA regulation. Compliance with the new regulation is required by January 1, 2009.

Transmission and Distribution Systems

On December 3rd and 4th, 2007, Mr. Ted Kelly and Mr. Adam Young, visited the City to collect information and to observe the City transmission and distribution system, as operated and maintained by the Electric Division. Mr. Ron Lunt, Public Utilities Director, provided information related to the transmission and distribution system. Mr. Lunt also led a tour of the electric transmission and distribution system.

The Electric Division distributes power to its customers by a network of transmission lines, distribution substations, and distribution lines. The transmission lines are rated at 22 kV or 69 kV and are connected to 15 distribution substations located throughout the service area. The distribution substations reduce the

power from transmission voltages to the primary distribution voltages of 4 kV or 12 kV to facilitate distribution of electric power to customers. The 22 kV and 4 kV lines are being converted to 69 kV and 12 kV to make the system uniform. Duke completed the last load flow study of the Electric System in 2001. A short circuit duty study was completed to study the effects of the new 230 kV Conectiv Inc. (Conectiv) tie station.

System Reliability: The Electric Division provides for reliability of its distribution system by configuring a majority of its distribution circuits in primary closed loop arrangements, improving existing circuits, and installing adequate substation transformer capacity. Normal transformer and line loading are limited to provide sufficient margin to convey firm power requirements during an emergency or a switching operation, or for maintenance.

Power Quality: The Electric Division does not have any significant power quality problems. The overall power factor for the Electric System has decreased from 97.4 percent in FY 2006 to approximately 97.2 percent in FY 2007. Power transformers equipped with load tap changers regulate bus voltages at the distribution substations. Distribution transformers are equipped with no-load taps to make voltage adjustments. There are capacitors and voltage regulators on the Electric System that control voltage and vars on the portion of the system furthest away from the current source and generation. The system operators monitor the power factor closely and turn on capacitors or adjust the generation to compensate for low power factors.

Operations and Maintenance: The Electric Division has a SCADA system that is monitored continuously for any problems that may arise in the Electric System. The main control room has two system operator desks and a large screen where system operating information is displayed. System operators can monitor the Electric System operation, such as voltage levels, current flows, etc. and make necessary adjustments as problems arise. The systems operators have received some PJM training and are not required to be certified as Delmarva is the controlling agency.

Loading on substation transformers used for an emergency, a switching operation, or maintenance is limited to 120 percent of the rated capacity, followed by a 12-hour cool-down period. The mobile substation is energized at least once a year to prevent moisture build-up in the transformer oil and to ensure the substation works properly.

The Electric Division has nine line crews to work on the system. Four crews are responsible for overhead lines, four crews are responsible for underground lines, and one crew is responsible for maintenance. The primary responsibilities of the eight line crews are installation of new service connections and construction of new lines. The Trouble crew maintains the street lights, repairs underground services and is the first responder to outages. Tree trimming is now contracted out and is no longer performed by the Electrical Division; however, their performance is monitored by the Line Crew Superintendent.

The Substation/Relay Maintenance Division is responsible for operation and maintenance of the substations and associated equipment. They perform visual inspections of substations, associated equipment, trip counter checks, battery systems checks, and annual transformer oil tests.

The City contracts with an outside firm to inspect and chemically treat each wood pole in the Electric System every ten years. This is accomplished by awarding a five year contract to spread out the expenses. The City also has a contract with an environmental consultant to check each substation for oil leaks and to provide instruction on cleaning up in the event of an oil spill.

Design Standards and Specifications: The Electric Division designs the transmission and distribution circuits and some substation upgrades in conformance with national safety standards. Other substation and transmission design is contracted out to The Shaw Group, Black & Veatch, and Wilson and Wilson Consultants.

The underground distribution design utilizes road or alley front access construction. This design means the electrical equipment, such as transformers and underground cable, are installed beside the road instead of behind houses or buildings. The advantage of front access construction is the accessibility for maintenance and repairs to cable and electric equipment. The underground cables are installed in PVC pipe for added protection and for easy cable replacement. The Electric Division installs jacketed, concentric cable that is rated at 15 kV, with 133 percent Ethylene Propylene Rubber (EPR) insulation. The standard overhead distribution design utilizes a flat construction using a single cross-arm and insulators on 45 foot class 2 poles. Typically all electrical equipment locations have ground rods installed with measured readings of 25 ohms or less.

The substation design is generally a low-profile rigid bus design. The circuit breakers are SF6 gas-filled and the relays are microprocessor based with SCADA control and monitoring.

Transmission and Distribution Improvements: The following describes completed, on-going, and planned improvements to the City's Electric System:

Completed:

- Kesselring Feeder
- Meter Testing Bench
- Dover Downs 69kV Relocation
- Denny's Road Upgrade
- Blue Light Security

On-Going:

- Lebanon Transformer
- Mayfair Substation – 69kV/12kV
- 69 kV Feeders 3 and 4
- Distribution Capacitors
- Transmission Relaying, Replacement & Calibrations
- College Road Distribution Substation
- Distribution Upgrades
- Replacement of 69 kV Breakers
- Lighting Project and Rehab
- New Development & Upgrades
- Radio Read Meters Change Out
- Fiber Optic Replacement/Installation

Planned:

- Horse Pond 600 Transformer
- Governor's Avenue Rebuild
- St. Jones Substation
- Danner Farm Transformer
- Mid City Substation
- General Scott Substation

System Tour: The tour of the Electric System included drive-by observations of a sample of the transmission circuits, distribution circuits, and substations.

The Electric System was in good condition and appeared to be well maintained. The Cartanza Substation is a 230/69 kV substation, which serves as an intertie with Delmarva. Delmarva maintains the 230 kV side of the station, while the City of Dover maintains the 69 kV side. Cartanza currently has two 69 kV lines leaving the station. There are plans for a total of four 69 kV lines at Cartanza. The two lines leave the station on one structure and remain a double circuit until the circuits split down the line.

Most of the fifteen substations were observed during the tour. St. Jones substation is the last 22/4 kV substation on the system. This station is old and will be updated when the 22 kV and 4 kV line conversions are complete. North Street and VanSant substation were observed and appeared to be in good condition. Overall, the substations appeared to be well maintained. Some older structures have corrosion on the steel, but much of this steel will be replaced by planned or ongoing projects and upgrades. There was no vegetation visible and the yards appeared to be well maintained.

During the tour the 69 kV and 12 kV lines were observed and all appeared to be in good condition. None of the poles appeared to be leaning.

Conclusions

Based on statements and information provided, as well as the observations and reviews performed, it is the opinion of Burns & McDonnell that the City's power generation facilities are being operated and maintained consistent with accepted electric utility practice in the United States. In general, the performance, operation, maintenance, staff, planning, and training aspects for the McKee Run and VanSant stations were found to be above average. Specifically, the generation facilities have demonstrated a high level of availability despite the dispatching of the units primarily for peak demand. In addition, it is the opinion of Burns & McDonnell' that the design, construction, operation and maintenance of the City's electric transmission and distribution system and the associated facilities are consistent with current generally accepted electric utility standards. The City and the Electric Division are proactive in preventative maintenance and expansion of the Electric System before problems arise.

* * * * *

PART III – FINANCIAL ASSESSMENT

PART III

FINANCIAL ASSESSMENT

The financial results of the City of Dover, Delaware (City) Electric System for the fiscal year (FY) ended June 30, 2007 were generated through the management and operation of the Electric System by the Electric Division. The financial results are reviewed below.

FINANCIAL RESULTS

The revenues of the Electric Division during FY 2007 included charges for electric service, as well as miscellaneous revenues from items such as rents, pole connections, reconnect fees and emission credits. On the Comparative Statement of Revenues, Expenses, and Changes in Unreserved Retained Earnings, revenues were compared to the Electric Division's costs of providing services to its customers to determine whether the financial requirements of the Electric Division were met.

Required Revenue Level

The level of revenues required from the retail electric rates for the Electric Division were determined through the analysis of the financial results and net income or net margins for the most recent fiscal year. The City of Dover, Delaware Resolution Authorizing and Securing Electric Revenue Bonds, adopted December 23, 1985 requires that the Electric Division maintain a debt service coverage ratio of 1.25. The following is an excerpt from Section 502(c) of the Resolution.

“(c) The total amount of the Revenues of the Electric System during the preceding fiscal year shall have been not less than the total of the following:

- (1) The Current Expenses of the Electric System during the current fiscal years shown by the Annual Budget . . . for such fiscal year, and*
- (2) One hundred twenty-five percent (125%) of the maximum amount of the Principal and Interest Requirements for any fiscal year thereafter on account of all bonds then Outstanding under the provisions of this Resolution.*

The City further covenants that, from time to time and as often as it shall appear necessary, it will adjust the electric rates as may be necessary or proper so that the revenues of the Electric System in each fiscal year will not be less than the total of the amounts set forth in subdivision (c) of this section.”

Electric Rates

Customers of the Electric Division of the City are charged for the electric service they receive based on rate schedules, tariffs, or contracts that reflect the costs to the Electric Division of providing that service. For purposes of setting electric rates, customers with similar load and service characteristics should be placed in the same rate classification. A rate study was completed during the last portion of FY 2006. This study was necessary to address increased costs associated with the new power supply arrangements that became effective July 1, 2006. The rate study recommended combining a number of rate classes and increasing rates to provide for the necessary increase in revenues to meet increased costs. A second rate increase was recommended for January 1, 2007 in order to cover increased costs associated with operating the power plant. The various current rate classifications for the City are listed below.

- Residential
- Small Commercial (1 Phase, 3 Phase, & 1 Phase Heating)
- Medium Commercial (1 Phase & 3 Phase)
- Large Commercial (3 Phase with Reactive Metering)
- Primary
- Transmission
- Outdoor Development Lighting
- Private Outdoor Lighting
- Water Pump
- Water Pump 2
- Supplemental for NRG

Operating Results

The Electric Division provided service to its customers under the rate schedules listed previously. Table III-1 presents summaries of the energy sales, the number of customers, and the average kilowatt-hour (kWh) per customer of the Electric Division for FY 2005 through FY 2007 by the City's revenue classifications and in total. Total energy sales increased from approximately 731.6 million kWh in FY 2005 to approximately 734.1 million kWh in FY 2007, or an average annual increase of about 0.11 percent.

Table III-1

ANNUAL SALES AND CUSTOMERS
FISCAL YEARS 2005 - 2007
City of Dover Electric Division [1]

	2005	2006	2007
Energy Sales (kWh)			
Residential	186,240,829	191,517,807	190,756,284
Commercial	231,085,393	239,762,026	253,281,301
Primary	164,293,100	160,146,270	159,025,303
Transmission	142,606,622	142,877,369	131,009,119
Municipal [2]	7,409,075	2,506,760	0
Total Energy Sales	731,635,019	736,810,231	734,072,007
Average Number of Customers (bills)			
Residential	17,943	18,224	18,578
Commercial	2,963	3,166	3,421
Primary	33	33	36
Transmission	4	4	4
Municipal	1	1	1
Total Customers	20,944	21,428	22,040
Energy Per Customer			
Residential	10,379	10,509	10,268
Commercial	78,001	75,722	74,037
Primary	4,978,579	4,852,917	4,427,619
Transmission	35,651,656	35,719,342	32,752,280
Municipal	7,409,075	2,506,760	-
Average Energy Per Customer	34,933	34,385	33,306

[1] From monthly electric billing summaries by revenue class.

[2] Municipal energy sales were reduced in FY2007 due to remaining Municipal customers moving into the Commercial customer class

Table III-2 shows the revenues resulting from those sales with ratios for revenue per kWh and average revenue per customer for each revenue classification and in total. Total revenues from sales to electric customers in FY 2007 were approximately \$83.1 million, representing average annual increases of 11.37 percent over the FY 2005 rate revenue of approximately \$60.1 million. This increase reflects the recommended rate increases that were implemented in FY 2007.

In FY 2007, the average price per kWh for residential customers was 12.40 cents and the system-wide average price was 11.32 cents per kWh. These average prices compare to the corresponding 2007 national average rates of 10.53 and 9.05 cents per kWh, respectively. For a regional comparison, the averages within Delaware were 12.84 cents per kWh for residential customers and 11.08 cents per kWh system-wide.

The Electric Division's largest cost providing electric service to its customers is the wholesale cost of power, purchased from the Pennsylvania New Jersey Maryland Interconnection (PJM) marketplace by its Energy Manager, PACE Global Energy Services (Pace). From FY 2005 to FY 2007, the cost of power increased at an average annual rate of approximately 21.3 percent from approximately \$39.6 million to approximately \$70.7 million. This reflects PJM wholesale power prices as compared to the long-term fixed power price that Dover had in place for ten years under the previous Duke contract, which expired at the end of FY 2006. The recent reset of wholesale power prices reflects long-term market price increases. Over the same period the volume of energy purchased increased from approximately 768.6 million kWh to approximately 788.8 million kWh.

The significance of this data to the Electric Division is illustrated in Table III-3. The top portion of the table shows net operating revenue as the difference between total revenues generated by the rates and the cost of power. The ratios of purchased power expense to sales revenues are calculated for FY 2005 through FY 2007. As indicated, the Electric Division's cost of power supply as a percentage of rate revenue has jumped from approximately 66 percent in 2006 to 85 percent in 2007.

Table III-2

**ANNUAL REVENUES AND SALES RATIOS
FISCAL YEARS 2005 - 2007
City of Dover Electric Division**

	2005	2006	2007
Revenue			
Residential	\$18,722,220	\$20,135,081	23,659,349
Commercial	20,612,790	22,615,074	30,259,773
Primary	11,040,130	11,324,243	16,915,686
Transmission	8,566,630	8,992,335	11,907,244
Municipal [1]	1,228,655	777,620	367,761
Total Revenue	<u>\$60,170,424</u>	<u>\$63,844,353</u>	<u>\$83,109,813</u>
Revenue/kWh			
Residential	\$0.1005	\$0.1051	\$0.1240
Commercial	0.0892	0.0943	0.1195
Primary	0.0672	0.0707	0.1064
Transmission	0.0601	0.0629	0.0909
Municipal	0.1658	0.1793	0.0000
Total Revenue/kWh	<u>\$0.0822</u>	<u>\$0.0866</u>	<u>\$0.1132</u>
Revenue Per Customer			
Residential	\$1,043	\$1,105	\$1,273
Commercial	6,958	7,142	8,845
Primary	334,549	343,159	470,970
Transmission	2,141,657	2,248,084	2,976,811
Municipal	1,228,655	777,620	401,194
Average Revenue Per Customer	<u>\$2,873</u>	<u>\$2,979</u>	<u>\$3,771</u>

[1] Municipal revenues were reduced in FY2007 due to moving the remaining Municipal customers class into the commercial customer class.

Table III-3

**NET REVENUE MARGINS AND UNACCOUNTED FOR ENERGY
FISCAL YEARS 2005 - 2007
City of Dover Electric Division**

	2005	2006	2007
Net Revenue Margins (\$)			
Sales Revenues	\$60,170,424	\$63,844,353	\$83,109,813
Purchased Power Expense	39,631,302	42,293,895	70,725,844
Net Revenue Margin	\$20,539,122	\$21,550,458	\$12,383,969
Net Revenue Ratio	65.9%	66.2%	85.1%
Unaccounted for Energy (kWh)			
Purchased Power	768,653,000	781,466,220	788,824,000
Energy Sales	731,635,019	736,810,231	734,072,007
Unaccounted for Energy (Losses)	37,017,981	44,655,989	54,751,993
Percentage	4.8%	5.7%	6.9%

Another comparison that can be made from the previous data is the relationship of the amount of energy purchased and delivered to the electric system to the energy sales. This relationship identifies the level of unaccounted for energy in the Electric System. This unaccounted for energy may include energy that was un-metered, metered inaccurately, stolen, lost, etc. The bottom portion of Table III-3 presents these comparisons for the Electric Division for FY 2005 through FY 2007. As shown, the percentage ratio of the unaccounted for energy to the total energy purchased for FY 2007 is 6.9 percent. This increase in unaccounted for energy is a result of the City now metering its purchased energy requirements from the PJM Eastern Hub as opposed to Cartanza Substation as it had under the previous arrangement with Duke.

Table III-4 presents a re-creation of the City's Statement of Revenues, Expenses, and Changes in Unreserved Retained Earnings for the Electric Revenue Fund for FY 2005 through FY 2007. Net income increased from approximately \$2.4 million in FY 2005 to approximately \$4.7 million in FY 2006. Net income decreased from FY 2006 to FY 2007 to a \$3.8 million loss in FY 2007. This loss was primarily due to the increased cost of purchased power. It should be noted that retail electric rate revenues were increased to cover the increased purchased power costs. The negative change in net assets of \$3.8 million is due to the following changes.

The City had a long-term power supply/asset management agreement with Duke Energy which expired on June 30, 2006. The Duke Energy agreement was a ten year fixed price contract. The fixed price covered all cost of supply and plant operations as a bundled rate to the City. The Duke agreement provided for a price escalator each year which we passed through to our customers as a power cost adjustment when necessary. The agreement also had a revenue sharing arrangement which the City would be rebated for a portion of positive net results. All market and liability risks were borne by Duke. As fuel prices have increased over the past few years the City has been able to enjoy the benefits of the contract rates that were agreed to in 1996.

Effective May 4, 2006 the City entered into a five year Energy Management Agreement with Pace of Fairfax, Virginia to assist the City with its energy procurement, energy sale, purchase of fuels, establishment and management of risk policies, to develop and manage hedging protocols and related energy procurement challenges. Also, effective May 4, 2006 the City entered into an agreement with North American Energy Services Company of Issaquah Washington for generation asset management. The City bears all market risks, credit risks, and liability under the new contracts which is different from the previous agreement.

Table III-4

**COMPARATIVE STATEMENT OF REVENUES, EXPENSES, AND
CHANGES IN UNRESERVED RETAINED EARNINGS
FISCAL YEARS 2005 - 2007
City of Dover Electric Division**

	Actual		
	FY 2005	FY 2006	FY 2007
Operating Revenues:			
Charges for Electric Service	\$ 60,170,424	\$ 63,844,353	\$ 83,109,811
Miscellaneous Services/Incomes	3,132,608	4,160,979	3,904,260
Total Operating Revenues	<u>\$ 63,303,032</u>	<u>\$ 68,005,332</u>	<u>\$ 87,014,071</u>
Operating Expenses:			
General Administration	\$ 4,500,056	\$ 4,751,390	\$ 4,370,066
Purchased Power	39,631,302	42,293,895	70,800,844
Transmission/Distribution	2,817,700	3,029,993	3,666,515
Engineering	2,828,499	1,906,273	1,927,648
Metering	270,187	303,029	281,728
Tree Trimming	-	-	-
Utility Tax	1,032,656	1,092,711	1,461,435
Depreciation	3,680,282	3,766,861	3,843,097
Environmental	-	-	-
Allowance for Bad Debts	-	-	-
Right of Way Fees	-	-	-
Retiree Health Care	424,900	462,655	498,269
Self Insurance-health	-	-	-
Workman's Compensation	-	-	-
Total Operating Expenses	<u>\$ 55,185,582</u>	<u>\$ 57,606,807</u>	<u>\$ 86,849,602</u>
Net Operating Income	\$ 8,117,450	\$ 10,398,525	\$ 164,469
Non-operating Revenues (Expenses)			
Interest Earned			
Operating Fund	\$ 164,482	\$ 372,560	\$ 592,787
Reserved Funds	881,860	881,657	1,370,291
Net Increase in Fair Value of Investments	154,607	(55,058)	294,734
Interest and Fiscal Charges	(1,101,249)	(913,615)	(859,730)
Bond Discount Amortized	(97,965)	(99,775)	(104,310)
Gain/(Loss) on Sale of Assets	(12,839)	(127,477)	(484,345)
Total Non-operating Revenues(Expenses)	<u>\$ (11,104)</u>	<u>\$ 58,292</u>	<u>\$ 809,427</u>
Net Income Before Operating Transfers	\$ 8,106,346	\$ 10,456,817	\$ 973,896
Operating Transfers - In	-	64,000	-
Operating Transfers - Out	(5,663,008)	(5,816,956)	(4,800,000)
Total Net Operating Transfers	<u>\$ (5,663,008)</u>	<u>\$ (5,752,956)</u>	<u>\$ (4,800,000)</u>
Net Income	<u>\$ 2,443,338</u>	<u>\$ 4,703,861</u>	<u>\$ (3,826,104)</u>

A significant change in both revenues and expenses in the current fiscal year were attributed to the expiration of our power supply/asset management contract with Duke Energy. The cost per kilowatt for power supply and generation increased from \$0.054 to \$0.089. The City implemented an overall rate increase of approximately 31% (additional revenue of \$19.3 million) to help offset the \$28.4 million increase in the cost of power supply and generation. In addition to the rate increase the City reduced the transfer to the General Fund by \$1.0 million and used \$5.0 million of its rate stabilization reserve in order to phase in the needed rate increase over two years. The utility also experienced increases in non-service revenues of \$1.3 million attributed to the sale of emission credits. Operating expenses also increased \$0.7 million due to personnel, professional fees, material and supply cost increases. Non-Operating revenues and expenses experienced a net increase as a result of greater investment earnings of \$0.7 million.

Adequacy of Electric Rates

The City's Bond Resolution requires that annual revenues of the Electric Division be no less than the total current expenses plus 125 percent of the greatest remaining annual debt service. Current expenses is a term defined in the Resolution to include all expenses necessary to maintain and repair the Electric System, all administrative expenses, and engineering, legal or other consultant fees. Transfers to reserve accounts and special purpose funds, and allowances for depreciation are specifically excluded from "current expenses."

In order to determine if the City and the Electric Division have met this requirement, the net income shown in Table III-4 must be adjusted to add back the interest on bonds, depreciation expense, and other non-cash income and expenses. Table III-5 presents the adjustments to net income and the determination of the revenues available for debt service for FY 2005 through FY 2007.

Section 502 of the Resolution requires that the annual debt service used in evaluating the revenues is to be the maximum amount for any fiscal year thereafter. Table III-6 presents the annual totals of principal and interest amounts due on bonds currently outstanding. The calculation of the debt service coverage ratio on Table III-5 is based on the total maximum debt service payment in any fiscal year. For FY 2007 the calculation is based on the annual debt service payment of \$2,644,620 in FY 2012.

Table III-5

**DEBT SERVICE COVERAGE CALCULATION
PER SECTION 502 OF RESOLUTION
FISCAL YEARS 2005 - 2007
City of Dover Electric Division**

	<u>FY 2005</u>	<u>FY 2006</u>	<u>FY 2007</u>
Net Income	\$ 2,443,338	\$ 4,703,861	\$ (3,826,104)
Plus Excluded Expenses:			
Operating Transfers - In	\$ -	\$ (64,000)	\$ -
Operating Transfers - Out	5,663,008	5,816,956	4,800,000
Depreciation	3,680,282	3,766,861	3,843,097
Interest and Fiscal Charges	1,101,249	913,615	859,730
Bond Discount Amortized	97,965	99,775	104,310
Gain/(Loss) on Sale of Assets	12,839	127,477	484,345
Less Excluded Income:			
Net Increase in Fair Value of Investments	(154,607)	55,058	(294,734)
Interest Earned - Reserve Funds	(881,860)	(881,657)	(1,370,291)
Revenues Available for Debt Service	\$ 11,962,214	\$ 14,537,946	\$ 4,600,353
Maximum Principal and Interest in Any Year	\$ 2,652,213	\$ 2,644,620	\$ 2,644,620
Debt Service Coverage	<u>4.51</u>	<u>5.50</u>	<u>1.74</u>
Minimum Required Debt Service Ratio	1.25	1.25	1.25

As Table III-5 indicates, the City and the Electric Division maintained a debt service coverage ratio each year that was over the required 125 percent. Therefore, the revenues generated by the current electric rates have been sufficient to meet the applicable covenants of the Resolution.

STATUS OF REVENUE BONDS

The City has one series of electric revenue bonds currently outstanding that was issued pursuant to the Resolution. The 2004 Electric Revenue Bonds were issued in 2004, in the amount of \$22,535,000. These bonds were issued to refund the 1990 and 1993 bonds.

Table III-6 sets forth the debt service schedule for the 2004 bonds. The amounts of principal and interest and the total due each year are shown for the bond issue. As of the creation of this report, the current total principal outstanding for the 2004 bonds, adjusted for the FY 2007 payments that have already been made, is \$17,170,000.

INSURANCE

The City maintains a comprehensive insurance program to insure against varying types of liabilities, as well as significant losses related to various Electric Division properties. Section 706 of the Resolution, reads as follows.

"The City covenants that it will maintain a practical insurance program, with reasonable terms, conditions, provisions and costs, which the City Manager determines, with the approval of the Engineering Consultants, will afford adequate protection against loss, including loss of Revenues, caused by damage to or destruction of the Electric System or any part thereof and also comprehensive public liability insurance on the Electric System for bodily injury and property damage in such amounts as may be approved by the Engineering Consultants."

Table III-7 lists the insurance coverage procured by the City for the period July 1, 2006 through June 30, 2007. Burns & McDonnell has reviewed this list of insurance, and in Burns & McDonnell's opinion, as Engineering Consultant and not as insurance counselor, the insurance in full force and affect appears to satisfy the requirements of Section 706 of the Resolution.

Table III-7

sheet 1 of 2

SCHEDULE OF INSURANCE COVERAGE IN EFFECT
City of Dover Electric Division

	July 1, 2007 - June 30, 2008		July 1, 2006 - June 30, 2007	
	Coverage	Deductible	Coverage	Deductible
Commercial Package Policy				
Property				
Building & Contents	\$86,443,349	\$10,000	\$51,904,419	\$5,000
Inland Marine				
Computer Equipment	500,000	1,000	530,000	1,000
Contractors Equipment				
Scheduled Equipment - Total Value	16,000	1,000	14,000	1,000
Unscheduled Equipment	100,000	1,000	100,000	1,000
Max Any One unscheduled Item	5,000		5,000	
Employee Tools Limit	62,500	250		
Maximum any one item	1,000			
Catastrophic Limit	178,500		114,000	
Steel Towers & Antennas			18,700	1,000
General Liability				
General Total Limit	3,000,000		3,000,000	
Products and Completed Work Total	3,000,000			
Personal Injury	1,000,000		1,000,000	
Advertising Injury	1,000,000		1,000,000	
Per Occurrence	1,000,000		1,000,000	
Automobile				
Liability			1,000,000	
Personal Injury	1,000,000		300,000	
Uninsured Motorist	1,000,000		1,000,000	
Underinsured Motorist	1,000,000			
Comprehensive		500		500
Collision		1,000		1,000
Non-Owned Liability			1,000,000	
Hired Auto Liability			1,000,000	
Employee Benefit Plans Administration Liability				
Total Limit	3,000,000		3,000,000	
Each Wrongful Act	1,000,000	1,000	1,000,000	1,000
Law Enforcement Liability				
Total Limit	3,000,000		3,000,000	
Each Wrongful Act	1,000,000	5,000	1,000,000	5,000
Public Entity Management Liability				
Total Limit	3,000,000		3,000,000	
Each Wrongful Act	1,000,000	25,000	1,000,000	25,000
Employment Practices Liability				
Total Limit	3,000,000		3,000,000	
Each Wrongful Offense	1,000,000	25,000	1,000,000	25,000
Errors & Omissions Liability				
Public Entity Management Liability	1,000,000			
Employee Benefit Liability	1,000,000			
Crime				
Employee Theft	1,000,000	500	100,000	500
Inside Theft of Money & Securities	25,000	500	10,000	500
Robbery or Burglary			10,000	500
Outside Theft of Money & Securities.	25,000	500	10,000	500
Forgery or Alteration	100,000	1,000		
Computer Fraud	100,000	1,000		
Money Order & Counterfeit Paper Currency	100,000	1,000		

Commercial Package Policy (continued)

sheet 2 of 2

Boiler & Machinery			
Property Limit			\$5,000
Epediating Expenses		\$250,000	
Pollution Cleanup & Removal		250,000	
Spoilage		250,000	
Umbrellas			
General Total Limit	2,000,000	2,000,000	
Products & Work Limit	2,000,000	2,000,000	
Personal Injury	2,000,000	2,000,000	
Advertising Injury	2,000,000	2,000,000	
Law Enforcement Liability	2,000,000	2,000,000	
Each Event Limit	2,000,000	2,000,000	
Deductible Per Event		10,000	10,000

Pollution Liability Policy

Each Claim Limit		1,000,000	5,000
Aggregate Limit		1,000,000	

Excess Worker's Comp

Employer's Liability Limit		1,000,000	500,000
Specific Limit		Statutory	500,000
Aggregate Limit		1,000,000	

Worker's Comp - TPA Services

Travel Accident Policy

Principal Sum		100,000	
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Bond - Self-Insured Worker's Comp - State of DE

Limit		750,000	
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Bond - Janice Green - Public Official Bond

Limit		100,000	
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Bond - Donna S. Mitchell - Public Official Bond

Limit		100,000	
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Bond - Traci McDowell - Public Official Bond

Limit		100,000	
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XL Insurance America, Inc.

McKee Run and Van Sant Generating Stations			
Limit	252,100,000	50,000,000	

Starr Technical Risks Agency, Inc.

McKee Run and Van Sant Generating Stations			
Limit		50,000,000	

OPERATING AND RESERVE FUNDS

The City has established several funds and reserves to ensure that moneys are available for specific purposes when they are needed. The following are descriptions of each fund and their purpose.

- **Electric Revenue Fund** – The Electric Revenue Fund was established in Section 503 of the Resolution. All revenues are to be deposited into the Electric Revenue Fund when received. Current expenses are to be paid and other funds are to be maintained from the Electric Revenue Fund. Moneys are transferred from the Electric Revenue Fund to the Interest and Sinking Fund, Improvement and Extension Fund, the Depreciation Reserve Fund, Future Capacity Fund, and Electric Rate Stabilization Fund.
- **Electric Improvement and Extension Fund** – The Improvement and Extension Fund was established in Section 507 of the Resolution. Funds are added to the Improvement and Extension Fund from the Electric Revenue Fund to the extent that the amount of funds available from the Electric Revenue Fund exceeds the total of the amounts required to be added to the Interest and Sinking Fund. The Improvement and Extension Fund also receives additional funding from the Depreciation Fund, the Future Capacity Fund, the Insurance Stabilization Fund, and from the State of Delaware. Section 510 of the Resolution indicates that, except for certain situations, moneys held in the Improvement and Extension Fund are to be used only for payment of costs of unusual maintenance or repairs, renewals or replacements, obtaining or replacing equipment, constructing extensions, additions, or improvements, and engineering expenses related to the foregoing activities.
- **Interest and Sinking Fund** – The Interest and Sinking Fund was established in Section 507 of the Resolution. This fund consists of two restricted accounts: the Bond Service account and the Reserve Account. The Bond Service Account is funded with equal monthly transfers from the Electric Revenue Fund such that the balance, as of each payment date for interest or for principal and interest, will be equal to the amount of the payment due. The payments of principal and interest due on bonds are made from the Bond Service Account. The Reserve Account is funded by transfers from the Electric Revenue Fund, as necessary, to maintain a balance equal to the maximum combined principal and interest for any future fiscal year through the life of all bonds then outstanding. Moneys in the Reserve Account are used for paying interest on and principal of bonds when the balance in the Bond Service Account is insufficient for making those payments. Excess moneys in the Reserve Account are also used towards paying current interest payments. The total amount in the Restricted Accounts for the 2004 bonds as of June 30, 2006 was \$5,409,790. Principal and interest payments due on July

1, 2007 make up \$2,209,524 of the combined total of these restricted accounts. The remaining \$3,200,206 exceeds the maximum combined debt service for any future fiscal year, which is the \$2,644,620 in FY 2012.

- Depreciation Reserve Fund – The Depreciation Reserve Fund represents moneys that have been set aside for the sole purpose of funding renewals and replacements of the Electric System as components or equipment wear out, deteriorate, or otherwise become unsuitable for the intended purpose. Transfers from the Electric Revenue Fund and investment earnings are the only sources of additional moneys for the Depreciation Reserve Fund. Transfers to the Improvement and Extension Fund are made as necessary to fund capital projects. The target appropriation for the Depreciation Reserve Fund each year is the excess of depreciation expense for the year over the amount of principal included in debt service payments made during the year. The reserve balance at the end of FY 2007 was \$13,535,183.
- Future Capacity Fund – The Future Capacity Fund was established to set aside and accumulate funds from the Electric Revenue Fund for use in evaluating and pursuing activities related to the Electric Division's alternatives for power supply resources for future demand for electricity. The original target balance for this reserve was \$5,000,000. The reserve balance as of June 30, 2007 was \$8,958,793.
- Insurance Stabilization Fund – The Insurance Stabilization Fund was established by the City to provide for the funding of insurance deductibles in the event of loss(es) covered by the City's insurance policies then in effect. The target balance in the Insurance Stabilization Reserve is \$250,000. The reserve balance as of June 30, 2007 was \$351,255.
- Contingency Reserve Fund – The Contingency Reserve Fund was established by the City to provide for unplanned expenditures that may not be avoidable. The City's Financial Policies require that a minimum balance be maintained in the Contingency Reserve Fund equal to one percent of the current year revenues for the Electric Revenue Fund. This fund was initiated in FY 2003 and at June 30, 2007 had a balance of \$847,032.
- Electric Rate Stabilization Fund – The Electric Rate Stabilization Fund was established in FY 2005 to offset the costs of the power cost adjustment to the customers of Dover. The fund's target balance is

\$5,000,000. Any excess of this amount will be refunded to customers by reducing the rate of the power cost adjustment. The fund's balance as of June 30, 2007 was \$379,784. This decrease from the previous year end balance of \$5,003,510 was due to a transfer to operations of nearly \$5 million. This transfer to operations was utilized to reduce the required rate increase due to increased purchased power costs.

The Interest and Sinking Fund, the Insurance Stabilization Fund, the Contingency Reserve Fund, and the Electric Rate Stabilization Fund are within the Electric Revenue Fund. The Depreciation Fund and the Future Capacity Fund are within the Improvement and Extension Fund. Table III-8 presents the activity in the funds listed above, except the Electric Revenue Fund and the Improvement and Extension Fund.

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Table III-8

RESERVE FUND ACTIVITY AND BALANCES
FISCAL YEARS 2005 - 2007
City of Dover, Delaware

	Bond Reserve Account	Depreciation Reserve Fund	Future Capacity Fund	Insurance Stabilization Fund	Contingency Reserve Fund	Electric Rate Stabilization Fund
<u>Year Ended June 30, 2005</u>						
Balance in Account on July 1	\$380,022	\$14,995,831	\$8,181,750	\$720,069	\$598,356	\$493,178
Receipts						
Interest Earned	286,845	323,489	204,631	4,386	19,354	43,156
Appropriations	-	-	-	-	505,937	2,079,312
Total Funds Available	\$666,867	\$15,319,320	\$8,386,381	\$724,455	\$1,123,647	\$2,615,646
Disbursements						
Transfer to Operations	-	-	-	505,937	-	-
Balance in Account on June 30	\$666,867	\$15,319,320	\$8,386,381	\$218,518	\$1,123,647	\$2,615,646
<u>Year Ended June 30, 2006</u>						
Balance in Account on July 1	\$666,867	\$15,319,320	\$8,386,381	\$218,518	\$1,123,647	\$2,615,646
Receipts						
Interest Earned	260,316	333,479	182,690	5,622	26,476	73,074
Appropriations	-	-	-	-	-	2,314,790
Total Funds Available	\$927,183	\$15,652,798	\$8,569,071	\$224,140	\$1,150,123	\$5,003,510
Disbursements						
Transfer to Operations	-	-	-	-	-	-
Balance in Account on June 30	\$927,183	\$15,652,798	\$8,569,071	\$224,140	\$1,150,123	\$5,003,510
<u>Year Ended June 30, 2007</u>						
Balance in Account on July 1	\$927,183	\$15,652,798	\$8,569,071	\$224,140	\$1,150,123	\$5,003,510
Receipts						
Interest Earned	292,150	604,483	389,722	10,755	37,380	35,802
Appropriations	-	-	-	116,360	-	-
Total Funds Available	\$1,219,333	\$16,257,281	\$8,958,793	\$351,255	\$1,187,503	\$5,039,313
Disbursements						
Transfer to Other Reserve Funds	-	-	-	-	(340,471)	340,471
Transfer to Operations	-	(2,722,098)	-	-	-	(5,000,000)
Balance in Account on June 30	\$1,219,333	\$13,535,183	\$8,958,793	\$351,255	\$847,032	\$379,784

PART IV – CONCLUSIONS

PART IV CONCLUSIONS

In the preparation of this Engineering Consultant's Report, Burns & McDonnell completed assessments of the electric generating stations and the transmission and distribution system of the City Electric Division, including interviews, observations, and reviews of FY 2007 expenditures and FY 2008 budgets. In addition, an analysis of the balances of the Improvement and Extension Fund and other funds benefiting the Electric Division was performed. Burns & McDonnell also reviewed the adequacy of the revenues provided by the current retail rates in relation to the requirements of the City of Dover, Delaware Resolution Authorizing and Securing Electric Revenue Bonds, adopted December 23, 1985. A high level assessment of the City's insurance coverage related to the Electric Division was also completed.

Based on these reviews and assessments, it is Burns & McDonnell's opinion that:

1. The City's power generation facilities are being operated and maintained consistent with accepted electric utility practice in the United States.
2. The design, construction, operation, and maintenance of the City's electric transmission and distribution system and the associated facilities are consistent with current generally accepted electric utility standards.
3. The Electric Division capital projects included in the City's Capital Investment Plan and the FY 2008 Operating Budget are necessary and should provide improved reliability and power quality for the Electric System.
4. The balances as of June 30, 2007 for the various reserve funds maintained by the City for the Electric Division appear to be sufficient for their defined purposes.
5. The insurance coverage in full force and affect as maintained by the City related to the various assets of the Electric Division appears to satisfy the requirements of Section 706 of the Resolution.
6. The electric revenues generated by the City's current retail rates are more than sufficient to fulfill the debt service coverage requirement (125 percent) defined in Section 502(c) of the Resolution.

* * * * *