

****DRAFT*DRAFT*DRAFT****
MINUTES OF REGULAR MEETING
BURLINGTON ELECTRIC COMMISSION

Wednesday October 19, 2016 – 5:30 p.m.

The regular meeting of the Burlington Electric Commission was convened at 5:35 p.m. on Wednesday, October 19, 2016 at the Burlington Electric Department at 585 Pine Street, Burlington, Vermont.

Commissioners Sabina Haskell, Bob Herendeen, Tim Perrin, and Gabrielle Stebbins were present.

Staff members present included Neale Lunderville, Paul Alexander, Mike Flora, James Gibbons, Mike Kanarick, Munir Kasti, Dave MacDonnell, Jim Reardon, and Destenie Vital.

Other staff members present included Laurie Lemieux, Board Clerk.

Channel 17 was present to tape this meeting.

1. Agenda

There were no changes to the agenda.

2. Minutes of the September 14, 2016 meeting

Commissioner Perrin made a motion to approve the minutes of the September 14, 2016 meeting; the motion was seconded by Commissioner Herendeen and approved by all Commissioners present.

3. Public Forum

Darrin Springer was present along with Renee Bourget-Place and Christopher Metzler from KPMG.

4. Commissioner's Corner

Commissioner Herendeen stated that BED hosted a great panel on Energy, Technology and the Transition to Net Zero.

Commissioner Herendeen asked if BED is still on target for launching the joint website with Vermont Gas. Mr. Lunderville stated that November 15th is still the projected date to launch the website.

Commissioner Herendeen had a few questions on the September Monthly Department Highlights and asked Mr. Lunderville to clarify these statements.

In the Energy Services section, under UVM Medical Center, there were the following statements:

Several months later, when more data was gathered to help confirm the savings, it was found that a significant portion of the savings that were seen earlier were no longer there.

Mr. Lunderville explain that BED's Energy Services Team follows up on all projects and continue to work with customers after the programs are implemented and will make adjustments so the customers can obtain the greatest efficiency improvements.

An estimated lighting rebate for the project was supplied to the customer this month. They are in the process of determining the economics of going ahead with the project.

Mr. Lunderville stated that a company will come to BED to ask for a lighting rebate, the Department gives an estimate based on the design and once the as-builts are done there is than a true-up.

Also in the Energy Services Section, under “Other Services”, there was the statement:

BED has paid for a building science company to complete a walk-through of the area with the construction contractors and the owner.

Mr. Lunderville stated that BED works with outside contractors because of the different skillsets other than what the Energy Services Staff have. It's also not uncommon for the Department to work with a building owner before renovation, along with a third party to assist in putting together a comprehensive package.

Commissioner Herendeen stated that there was a chart on the wall at the panel presentation yesterday showing the estimated carbon dioxide savings through district heating and Commissioner Herendeen would like to speak with the person who put that together. Mr. Lunderville stated that Corix put together the information and will be happy to forward the contact information to Commissioner Herendeen.

Commissioner Perrin asked for an update on the IT Forward Program.

Mr. Lunderville stated that in early 2015 the IT Department was completely restructured. At that time there were four (4) employees reporting directly to the CFO without an IT Director. This resulted in a lot of solo projects without a lot of coordination. The reorganization put the IT Department under Ken Nolan and created the position of IT Director and hired Sue Fritz. Through attrition and the buyout the Department had nearly 100% turnover of the IT Department. One thing that Ms. Fritz has done is to take stock of all the systems BED has and all the anticipated needs going forward. IT Forward is an effort directed by Ms. Fritz to collect all the needs and wants of the Department. Ms. Fritz conducted two (2) IT Forward meetings where all the IT Projects were listed, discussed, and reviewed to see where these projects would fit in with the Department's Strategic Plan. Ms. Fritz is combining and prioritizing the lists which will then be sent back out to the employees for feedback and at that time it will be determined how to allocate the resources for both budgetary and staff time. Mr. Lunderville stated that the Department is in the beginning steps of IT Forward but it's something that is needed here at Burlington Electric.

5. General Manager's Update

Mr. Lunderville welcomed Darrin Springer to the Commission Meeting. Mr. Springer will be the replacement for Ken Nolan as the Manager of Strategy and Innovation and COO. Mr. Springer comes to BED from Governor Shumlin's office in the position of Chief of Staff and prior to this position with the Governor, Mr. Springer held the position of Deputy Commissioner of Public Service. Mr. Springer will be staying in the Chief of Staff position until Governor Shumlin's term ends and will begin at Burlington Electric on January 9, 2017.

Mr. Lunderville stated that BED is making the switch to Utilitec to do the Department billing. The Department is on track to move the mailing and billing system over to Utilitec on November 1st and shortly thereafter an enhanced on-line bill pay system where customers will be able to pay on line but also see copies of previous bills going back for one year.

The Department has put in a Tier 3 request for electric busses and has been working with Green Mountain Transit (GMT) to start a pilot program later in the fiscal year to get one or two electric busses in the GMT fleet. Mr. Lunderville stated that this is another step toward Net Zero on the transportation side.

One of the Department's initiatives is to build 2-3 micro-grids in the next 1-2 years. Three weeks ago it was announced that the City would be moving forward with building a road map on District Energy. Another micro-grid is the Airport and the Department has put out an RFI which is designed to give a conceptual view of how a micro-grid, specifically battery storage at the Airport, would improve the reliability but also

give BED a pilot to see how utility scale battery storage works. The Department hopes to have a vendor selected by the end of the year.

The water levels that are required to run McNeil and Winooski One have been very low. The McNeil plant has cycled off on the weekends to allow the water level to come back up and this has allowed the plant to continue to run during the week. Winooski One is a “run of the river” operation hydro facility and this week the run of the river actually dried up and for the first time this summer, Winooski One was unable to produce any electricity. Winooski One is back to producing a little electricity but the drought is having quite an effect. It’s too early to say that this will have a long-term budget impact for FY17 but it’s a yellow flag that the Department needs to keep an eye on and Mr. Lunderville will keep the Commission posted.

Burlington Electric, along with BTV Ignite, hosted a Zero Net Energy and Technology panel on Tuesday, October 18th. There were three (3) great speakers who sparked some interesting questions. This is the first year that BTV Ignite has done Innovation Week and BED is excited that a lot of BTV Ignite’s focus is around the great things being done around energy.

A South Korean magazine was at BED to do a feature story on BED’s 100% renewability goal and Mr. Lunderville stated that BED continues to attract a lot of attention and press around the world.

Public Power week was 2 weeks ago and a number of releases were done. One release the Department did was to roll out the pink hard hats to the field team in recognition of Breast Cancer Awareness Month.

Mr. Lunderville stated that BED’s SCADA Project is in the final stages and commissioning has started. Commissioning requires switching over the field devices from the old system to the new SCADA system. The commissioning has been successful so far and Mr. Lunderville is happy to report that the first three days of commissioning have been going well with little or no bumps in the road.

One of the Department goals is to make sure that every employee receives training. The training budget was increased and Mike Flora has organized a series of training on several topics ranging from basic training to more detailed training. BED is hosting a public utility accounting class conducted by APPA with a number of employees from the Finance Department attending. BED is also promoting the TruEd program through Champlain College that many employees take advantage of through the City’s Qualified Degree Program (QDP).

6. KPMG Audit Presentation (Discussion)

Mr. Reardon was present for the audit report and discussion. Also present and presenting were Renee Bourget-Place, the Engagement Partner for BED and Christopher Metzler, Engagement Manager for the BED audit.

Ms. Bourget-Place and Mr. Metzler presented their “report to the Board of Electric Commissioners”. It included: 1) a review of the audit objectives; 2) an overview of the FY 2016 audit results; 3) a discussion of BED’s control environment and presumed risks factors by statement of auditing standards number 99; and 4) areas of emphasis during the audit. They also discussed the required communications under “Statements on Auditing Standards” (SAS) 114, which include the “Management Comments Letter”. It should be noted that BED management (Director of Finance) has responded to KPMG’s “Management Comments” recommendations.

KPMG reported that the audit opinion would be an unmodified (also known as an unqualified) opinion.

KPMG stated that 1) there were no matters involving the internal control structure that they considered to have material weaknesses; 2) they had no disagreements with management; 3) they encountered no difficulties in performing the audit; and 4) they confirmed they are independent of BED as of October 19, 2016.

KPMG discussed two areas of concern. These were not considered material to the overall financial statement presentation but were included in the 'Management Letter Comments'. As of October 19, 2016, KPMG identified two uncorrected audit differences that had not been recorded by BED. The first one involved an unreconciled difference between the accounts receivable sub-ledger and the general ledger. It was noted that this issue has since been resolved but because it is immaterial to the overall financial statements it will remain an unadjusted audit difference for FY 2016. The second one involved an unreconciled difference between the inventory sub-ledger and the general ledger. Although the inventory adjustment was not material and therefore was not booked, management did acknowledge a need to further enhance inventory control procedures.

Ms. Bourget discussed GASB 68 "Accounting and Financial Reporting for Pension". Although the amounts BED booked were essentially final, KPMG was still working with BED Finance and Accounting, the City and their Auditors to complete the full disclosure (narrative and possibly numbers) required.

Ms. Bourget-Place discussed GASB "Emerging Issues". She stated there will be a new GASB pronouncement effective for fiscal year 2018. This will be Government Accounting Standards Board (GASB) 75- Accounting and Financial Reporting for Postemployment Benefits other than Pensions. She mentioned other GASB projects: Leases, Asset Retirement Obligations and a reexamination of the Financial Reporting Model under GASB 34. "Leases" will require all leases (both capital and operating) to be recorded on the balance sheet. In the past, by definition, this would be recorded as an expense on the income statement. Under "Asset Retirement Obligations", requirements will be developed on recognition and measurement of asset retirement obligations other than landfills.

In closing, KPMG stated that although the financial reports are still in draft format and subject to further review, neither BED or KPMG expect any material change from what was presented until when the reports are printed and distributed in final form. However, if there were significant or material changes, KPMG would report back to the Commission.

Mr. Lunderville stated that the best practice following an audit report is for the Board to call an Executive Session to review any issues that auditors may not feel comfortable discussing with management present. For this reason, Mr. Lunderville suggests a finding relative to both contracts that the Auditors could speak about which could cause the Department to be at a substantial disadvantage in the market and any personnel issues that may come up with both these issues being covered in the Executive Session rules.

Commissioner Perrin moved to find that premature general public knowledge of KPMG's evaluation of BED's management with the Commission would clearly place the Burlington Electric Department at a substantial disadvantage per Title 1, Section 313, Subsections (a)(1) and (a)(3) of the Vermont Statutes, because such information may risk contractual relationships with BED counter-parties in the regular sale and purchase of energy and is considered an evaluation of BED personnel. The motion was seconded by Commissioner Herendeen and approved by all Commissioners present.

Commissioner Herendeen moved that the Commission enter into Executive Session to discuss the KPMG information with the Commission under the provisions of Title 1, Section 313, subsection (a)(1)(A) of the Vermont Statutes. This motion was seconded by Commissioner Perrin and approved by all Commissioners present.

The Commission moved into Executive Session at 6:29 pm

Commissioner Herendeen made a motion to exit Executive Session at 6:35 pm; this motion was seconded by Commissioner Haskell and approved by all Commissioners present.

Commission exited Executive Session at 6:35 p.m.

Commissioner Herendeen made a motion to accept the KPMG audit report; this motion was seconded by Commissioner Perrin and approved by all Commissioners present.

7. IRP Update (Discussion)

Mr. Gibbons stated that the Department is working on the last several chapters of the Integrated Resource Plan (IRP). These chapters are the generation alternatives available to BED, the economic analysis of what the entire picture looks like and the conclusion chapter. At this time there are very low energy prices, falling renewable energy credit prices, and falling capacity market prices. The Department is evaluating some obvious renewable energy choices which could be above the market and what they might do to BED's rate path and cost of service. There are some non-obvious impacts, like the changes in BED's obligations under the VT RES and the Standard Offer Program that the Department will need to model in more detail (to see if there are additional offsetting benefits of renewables). The next IRP meeting is scheduled for next Monday where there will be discussion on generation results and the decision tree proposals.

8. July/August FY 2017 Financial Update (Discussion)

Jim Reardon, Director of Finance, presented a brief review of August year-to-date financial results.

This presentation included a brief discussion of the \$3,102,000 Operating Income year-to-date and the \$3,096,000 Net Income year-to-date. Year-to-date Operating Income is \$611,000 higher than budgeted and year-to-date Net Income is \$276,000 higher than budgeted. Mr. Reardon pointed out that Other Income was below budget year-to-date due to assumed customer contributions for a micro-grid project that has been delayed and lower customer contributions for the UVM Chiller project than assumed. Sales to Customers year-to-date and for the month are slightly higher than budget. Mr. Reardon stated this is most likely due to year-to-date average temperatures warmer than normal. Other Revenue for the month and year-to-date was lower than budget due to Energy efficiency Program cost reimbursements less than planned. August Power Supply Revenues are up \$1,255,000 above budget due to timing of Renewable Energy Certificates (REC) for McNeil delivered in August but budgeted in July.

On the expense side, Power Supply Expenses are below budget \$251,000 year-to-date. Year-to-date fuel costs are lower than budget by \$625,000. McNeil production was 16% below budget and woodchip costs (per ton) were 20% under budget. Mr. Reardon pointed out that we are continuing to monitor on a frequent basis the raw costs of woodchips. Purchased Power Supply year-to-date is above budget by \$338,000. Independent System Operator (ISO-New England) purchases are higher due to below budget McNeil and Winooski One production. The \$171,000 year-to-date favorable variance in Operating Expenses is due to position vacancies that are in the process of being filled, outside services less than budgeted (REC Broker commissions, Northbrook and legal services) and the amount of capital versus expense work. The \$232,000 year-to-date unfavorable variance in Depreciation and Gain/Loss includes a \$201,400 loss on the retirement of McNeil assets that was not planned.

Mr. Reardon then discussed Capital Spending. In total, year-to-date ending September 30, capital spending is 36% (\$4,175,000) to the \$11,640,000 budgeted. The \$2,862,000 expended for Transmission represents Burlington Electric Department's (BED) purchase of its share of VTTRANSCO membership units being offered this year. This was budgeted to occur in December, 2016. The membership units pay a 12.5% return. Due to the purchase occurring in September versus December, BED should receive approximately \$90,000 more in investment income than budgeted in FY 2017. All other Capital Spending is \$1,313,000 year-to-date which represents 15% of the \$8,778,000 budgeted. Most of the underspending to date in the other capital categories is due to timing.

On Cash and Investments, BED closed September 30th with \$8.4 million of unrestricted and reserved operating funds. The projected September 30th balance for the FY 2017 budget was \$13.9 million. The significant differences between actual versus projected is the \$2.8 million investment made in VTTRANSCO in September that was planned for December and the proceeds of \$3.0 million from the General Obligation bonds expected in September but not yet received.

Mr. Reardon pointed out that the Rating Factors are in line to meet Moody's "A" bond rating. Mr. Reardon stated that BED has not yet gotten feedback from Moody's from our meeting with them in August.

Commissioner Herendeen moved to adjourn the meeting at 7:06 p.m.; the motion was seconded by Commissioner Haskell and approved by all Commissioners present.

Attest:



Laurie Lemieux, Board Clerk