

**MINUTES OF REGULAR MEETING
BURLINGTON ELECTRIC COMMISSION**

Wednesday, May 9, 2018 – 5:30 p.m.

The regular meeting of the Burlington Electric Commission was convened at 5:33 p.m. on Wednesday, May 9, 2018 at the Burlington Electric Department, 585 Pine Street, Burlington, Vermont.

Commissioners present included Sabina Haskell, Bob Herendeen, Tim Perrin, and Gabrielle Stebbins. Commissioner Scott Moody was absent.

Staff members present included Neale Lunderville, Paul Alexander, Valerie DeBrita, Mike Flora, James Gibbons, Jennifer Green, Mike Kanarick, Munir Kasti, Laurie Lemieux (Board Clerk), Dave MacDonnell, Jim Reardon, Darren Springer, and Destenie Vital.

Channel 17 was present to record this meeting.

1. Agenda

There were no changes to the Agenda.

2. April 11, 2018 Meeting Minutes

Commissioner Herendeen made a motion to approve the minutes of the April 11, 2018 Commission meeting; the motion was seconded by Commissioner Haskell. Commissioner Perrin was not in attendance at the April 11, 2018 Meeting and, therefore, abstained from the vote.

3. Public Forum

Mr. Marty Gillies was present for the meeting.

4. Commissioners' Corner

Commissioner Stebbins stated that General Manager Neale Lunderville is reappointed every year and the Commission will need to provide a letter of support to the Mayor by May 26, 2018. Commissioner Stebbins will follow up with each Commissioner for input and that the Commission has really appreciated Mr. Lunderville's service to Burlington Electric.

Commissioner Herendeen stated that there was an article in Seven Days regarding District Energy. The article stated that the McNeil Plant operates at 24% efficiency, and the district energy system would improve the plant efficiency to 26%. Commissioner Herendeen then asked if these numbers were correct. Mr. MacDonnell stated that these numbers were vetted by Mr. Paul Pikna. Mr. Lunderville stated that the primary purpose of the plant is electric generation, and there is only so much that can be done to improve the efficiency. Mr. Lunderville stated that higher numbers were estimated in the past, but that these numbers are more accurate.

Commissioner Herendeen asked if Burlington Electric could have a concise definition of Net Zero. Mr. Lunderville stated that BED does have a definition of Net Zero that was approved by the Commission two

(2) years ago. The definition of Net Zero will be added to the BED website along with the Strategic Direction so people can see the definition that the Department is using.

5. General Manager's Update

Mr. Lunderville stated that BED, the City, and four (4) local bikes shops unveiled a great E-Bike incentive program. This program offers BED customers a \$200 rebate on the purchase of an E-Bike or conversion kit that can be installed on conventional bikes. This program is believed to be only the second in the country.

Department Training

Mr. Lunderville stated that one of the Department Strategic Initiatives is employee education and training. When preparing this year's Strategic Initiatives, employees were asked to vote on what were they felt were the most important initiatives. The two (2) top initiatives that emerged were training and IT Forward. This year, the Department is allocating \$230,000 to ensure that employees are empowered by education and training. Last year Ms. Vital took over BED's workforce development and has been working across the organization to kick-start efforts, and has begun at McNeil.

Ms. Vital began a PowerPoint presentation by reviewing JMFA recommendations, which included regular supervisor training, allowing employees to work directly with each other, utilizing untapped staff work, education, and life experience, training on the union contract, and consistent application of rules.

Ms. Vital stated that in four (4) to six (6) years, McNeil will lose half of the staff to retirement, and an additional five (5) employees at the ten (10) year mark. It was determined that the Department needed a way to capture the knowledge and experience from these employees. In October, BED began employee assessments, conducted one-on-one interviews, reviewed job descriptions, and formulated a plan for training. One of the ways the Department is capturing job knowledge is by creating a video library. This library will contain all of the processes and procedures of positions at McNeil, thereby giving a new employee the ability to see step-by-step instructions.

Ms. Vital stated that work is continuing at McNeil, Pine Street supervisors have been assigned training modules, and required training will begin on June 1. Employee assessments at Pine Street will be completed by August, and mapping and training will be assigned to each employee.

Charge Awards

Through the APPA, Burlington Electric has won an award (unable to announce the name at this time) and, because of this award, the Department was short-listed for a Charge Energy Award. This award is about BED's commitment to marketing energy innovation and new energy sources. BED has been nominated in the "Green Brand" category. GMP was nominated last year. The Department is in great company as Nissan won the "Green Product" category last year, and Green Peace won in the "Green Brand" category. To qualify as a finalist for this award, BED needs 300 completed surveys around BED's Branding and is close with only twelve (12) remaining.

Innovation Cup

Mr. Lunderville stated that on April 6, BED held its first Innovation Cup Event with sixteen (16) participants comprising ten (10) teams. Each team presented to a panel of judges, including the Mayor, for up to five (5) minutes with an additional five (5) minutes of questions from the judges. The winning team presented on Net Zero Transportation, encouraging car-sharing and bike-sharing. The team members included Jen Greene, Patrick Campbell, Jessica Walker, and Valerie DeBrita. Mr. Lunderville introduced Ms. Green and Ms. DeBrita, who attended the Commission Meeting to present the winning idea.

Ms. Green stated that BED understands that achieving NZE in the transportation sector will require more than electrification; achieving this ambitious goal will require partnering with other transportation players to reduce fossil fuel use, and support alternative modes of transit that meet the unique needs of BED customers. As such, this unique innovation pairs BED's electric car and electric bike rebate programs with Greenride Bikeshare and CarShareVT members, respectively.

Here's how it works: when a BED customer buys an electric vehicle using BED's rebate program, he/she will be offered a Greenride Bikeshare membership. Together, these technologies allow a customer to make long trips (when a car might be needed), but still bike for those shorter, in-town voyages. Similarly, when a BED customer buys an electric bike, the CarShareVT membership provides customers access to a vehicle for longer or out-of-town trips, for example, to the home improvement store, or for visiting out-of-town relatives. Not only is this innovation unique, but also it supports the important work of our transportation partners, while offering more choices to our customers, including their unique transportation needs.

Mr. Lunderville congratulated the team and stated that the Department is committed to implementing this program.

Finance

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

March Operating Income year-to-date is \$1,237,000, and Net Income year-to-date is \$2,233,000. Year-to-date Operating Income is \$1,364,000 higher than budgeted, and year-to-date Net Income is \$1,031,000 higher than budgeted. The favorable variance of \$1,364,000 in Operating Income largely relates to less expended in Power Supply Expense, offset by less than expected through March in Operating Revenues. Fuel Expense is \$728,000 under budget due to McNeil Production year-to-date being 6% under budget and woodchip costs per ton being 1% under budget. Purchased Power Expense year-to-date is \$1,273,000 under budget. BED's position for the month of March was long (produced more power than customers consumed), and the excess power was sold at wholesale prices above budget. Mr. Reardon noted that there was additional production due to the new Great River Hydro contract. Operating Expenses, Taxes, Depreciation and Gain/Loss year-to-date are relatively on target. The \$207,000 unfavorable variance in March Operating Expenses relates to the purchase of material and supplies for the McNeil Generating Station that will be used in Fiscal Year 2019 during the scheduled major turbine overhaul. Other Income for March includes an unanticipated dividend of \$328,700 distributed to VT Transco, LLC members due to the sale of Utopus.

Mr. Reardon then discussed Capital Spending. In total, year-to-date ended April 30, Capital Spending is 60% (\$6,165,000) of the \$10,280,000 budgeted for Fiscal Year 2018. Year-to-date, we are underspent relative to the budget through April, 2018 by \$3,316,000. A large portion of the underspending is largely due to timing. However, it is expected that Production and General Plant will be underspent in fiscal year

2018 compared to amount budgeted.

On Cash and Investments, BED closed April with \$13.4 million of unrestricted and reserved operating funds. The current Rating Factors are not all in line to meet an “A” bond rating. The “Adjusted Debt Service Coverage Ratio” currently is 1.14, compared to a benchmark for “A” of 1.50. This is largely due to lower RECs and Sales to Customers revenue.

6. Strategic Direction Review

Mr. Lunderville stated that every year at this time the Department looks at the Strategic Direction to ensure that the Department is measuring progress against what the plans were and updating as necessary. When looking at the Mission, Values, Vision, and Objectives, there are no obvious changes required and a comfort level with them.

Mr. Lunderville and Mr. Springer reviewed the Strategic Direction chart with the Commission on each initiative and discussed the Department’s rationale for keeping existing initiatives and adding new initiatives, as well as for updating or removing initiatives.

There was discussion on the removal of the following initiatives:

Mr. Springer stated 4.4 *Develop dynamic rate and green pricing* has been removed due to the near completion of the electric vehicle rate filing. He stated that there is a possibility for future end use or green pricing rates, but that the Department needs time for IT Forward CIS/MDM project completion before loading more rate designs into the system. Commissioner Stebbins stated that removing this initiative makes sense for the coming year but, since this will be such a critical tool once the IT Forward system is completed, wondered if there was a way to put this initiative in a category that would guarantee that it would automatically renew as an initiative when applicable or appropriate. Mr. Lunderville stated that the team would consider her suggestions and craft language or find a place for this initiative (possibly within the “Technology” section) and report back to the Commission with a recommendation.

The next initiative removed was 4.7 *Integrate energy efficiency, demand, reduction, and distributed resources in regulatory planning and program design*. This initiative was removed because the Department has accomplished this initiative in part and will accomplish it more fully through the Net Zero RFP. Mr. Springer stated that, for the first time last year, the Department filed the Triennial Plan, which includes BED’s Tier 3 strategic electrification initiatives, along with BED’s thermal energy process fuels fund plan and electric efficiency for the electric fund. These three (3) different methods of funding have been merged per this initiative with a plan to continue in the future as there is additional opportunity to integrate these types of ideas as part of the Net Zero RFP. Commissioner Stebbins suggested that, although there is not a specific project this year, it remain as an initiative or redesignated as an ongoing initiative. Mr. Lunderville stated that the team would review this request, either determine to keep the initiative as part of the plan or to modify the initiative, and report back to the Commission.

The last initiative to be removed was 5.1 *Develop and test alternative revenue pilots*. Mr. Lunderville stated that, although the Department has had some great ideas, currently there are no plans for such alternative revenue pilots in the next year. Commissioner Stebbins would like to follow up with Mr. Lunderville and Mr. Springer to discuss this initiative.

Mr. Lunderville stated that the new Strategic Direction will be shared with employees next week and,

based on tonight's Commissioner feedback and upcoming employee feedback the team will rework the new Strategic Direction. Then, the updated version will be presented to the Commission at its June meeting with a goal that it be finalized and adopted for the next year.

FY2019 Budget Overview

Mr. Lunderville informed the Commission that, despite a very challenging year, the Fiscal Year 2019 budget proposal contains no rate increase, marking BED's tenth consecutive year without an adjustment. On the revenue side, BED continues to see degradation of the REC market, declining kW/h sales, and weak energy prices for the McNeil Generating Station. On the expense side, BED continues to see pressure on transmission and normal workforce costs. Mr. Lunderville pointed out that BED has moderated controllable costs through our reorganization and strategic transformation. Mr. Reardon showed a chart that demonstrated holding the line on controllable expenses. Mr. Lunderville stated that the FY 2019 budget proposal makes investments in key strategic initiatives that advance our vision of becoming a net zero energy city, plus emphasizes safety and employee training.

Mr. Reardon and Mr. Gibbons then went into more detail regarding the FY 2019 costs pressures. Mr. Gibbons stated that REC revenues have been declining and BED has used advance sales to soften the impact, but a continued depressed market is expected. Sales to Customers are expected to be lower in FY 2019 than the amount budgeted in FY 2018. There is some customer loss and some delayed, but expected, revenue additions, such as Burlington City Place. Mr. Reardon pointed out that the energy market is volatile, and Mr. Gibbons stated that BED has excess energy in the winter, so high prices actually reduce budget pressure. BED has used a conservative value for the FY 2019 budget. It was further discussed that it was prudent not to use worst case or best case scenarios. Mr. Gibbons then discussed that BED is a net buyer of market capacity, and its market prices are spiking. In FY 2019, BED will incur the highest capacity prices in a long time before they start to fall again. Mr. Gibbons stated that transmission costs will increase in FY 2019. He noted that transmission costs have increased by roughly \$3 million since BED's last rate increase, which equates to a 75% increase.

Mr. Reardon then discussed the major FY 2019 budget drivers, summarizing as a combination of a loss in revenue and an increase in expenses as previously discussed by Mr. Lunderville and Mr. Gibbons. He then discussed the FY 2019 key budget assumptions: stable REC and energy prices; no further decline in sales to customers; the pursuit of an accounting order for the McNeil turbine overhaul expected to occur in FY 2019; and a one-time gain on the sale of an asset. Mr. Reardon noted that, despite cost pressures, the FY 2019 budget will make investments to support BED strategic initiatives. This includes over \$2 million in information technology upgrades for customer, financial, and meter data information systems. Mr. Reardon also stated that Capital Spending continues to trend upward, with a proposed budget of \$7.6 million. Mr. Reardon stated that the proposed FY 2019 Capital budget plans on issuance of \$3 million in General Obligation bonds.

Mr. Reardon stated that cash reserves will remain strong through FY 2019, with an expected balance on June 30, 2019 of \$7.5 million. He then discussed the bond rating metrics, noting the "adjusted debt service coverage" ratio was expected to be 1.10 compared to a benchmark of 1.50, due principally to declining revenue. Management will monitor these metrics closely through the year and look for ways to increase revenue and/or to trim costs.

Mr. Lunderville then discussed the FY 2020 outlook stating that a rate adjustment is likely to remain fiscally prudent. BED residential and overall rates are below the statewide average. Mr. Lunderville

concluded by explaining that, without investments in renewable generation and our staff reorganization, a rate increase likely would have occurred three (3) or four (4) years ago.

Mr. Reardon then reviewed the FY 2019 Operating Statement with Commission members explaining the major differences between FY 2018 and the proposed FY 2019 budget.

Commission members will review the proposed budget and will reach out with any questions with a goal of the Commission voting on the FY 2019 budget in advance of BED's scheduled budget presentation to the Board of Finance on May 24, 2018.

Mr. Lunderville requested a Special Commission Meeting be held at 12noon on Wednesday, May 23, 2018. The Board Clerk will provide the Commission with call-in information and an Agenda.

Commissioner Herendeen moved to adjourn the meeting at 7:48 p.m.; this motion was seconded by Commissioner Perrin and approved by all Commissioners present.

Attest:



Laurie Lemieux, Board Clerk