MINUTES OF REGULAR MEETING
BURLINGTON ELECTRIC COMMISSION

Wednesday, October 8, 2014 – 5:30 p.m.

The regular meeting of the Burlington Electric Commission was convened at 5:34 p.m. on Wednesday, October 8, 2014, at the Burlington Electric Department at 585 Pine Street, Burlington, Vermont.

Commissioners Spencer Newman, Scott Moody, Bob Herendeen, Mark Stephenson, and Gabrielle Stebbins were present.

Staff members present included Neale Lunderville, Daryl Santerre, Ken Nolan, John Irving, Paul Alexander, Tom Buckley, Munir Kasti, and Charlie Willette.

Other staff members present included Laura Babcock, clerk.

Channel 17 was present to tape this meeting.

Commissioner Newman called the meeting to order at 5:34 p.m.

1. Agenda

There were no revisions to the agenda

2. Minutes of the September 10, 2014 meeting:

Commissioner Stephenson moved to accept the minutes for the September 10, 2014 meeting. The motion was seconded by Commissioner Herendeen and approved by all Commissioners present.

3. Public Forum

Gregory Roy was present from public.

4. Assistant City Attorney Gregg Meyers- Open Meeting Law Changes (Discussion)

Assistant City Attorney Gregg Meyers was present to discuss the open meeting law changes. Mr. Meyers noted that he planned to highlight a few key points and answer any questions rather than read through the open meeting law memo. Mr. Lunderville interjected that the Mayor has made it very clear that all departments are to strictly adhere to the new open laws. He also noted that Laura Babcock had been appointed as the internal informational officer for BED.

Mr. Meyers first discussed the topic of executive session. He stated that this should be a two-step process. First the commissioners should vote to decide if the topic at hand truly puts the department at a disadvantage

by discussing it publically. Some qualifying items would include contracts, labor relations, arbitration, and civil litigation. Once they determine they have an item that should be discussed privately, the commissioners should then hold a second vote to enter executive session. He reminded commissioners that no vote could be held during executive session.

Secondly Mr. Meyers defined a meeting as anytime a quorum meets to discuss commission business items. This includes email conversations as well. All correspondences are subject to public meeting laws and Mr. Meyers recommended all commissioners, on every board, use a city email address, rather than a personal one. He noted that City Attorney's office was drafting a document that would likely require all commissioners to use a city email in order to be compliant with public records laws. He made it clear that three or more commissioners could meet socially so long as no business was discussed. Mr. Meyers also said that short-notice and emergency meetings are still allowed but that you must warn the meeting as soon as possible.

Mr. Meyers stated that it is fine to have a commissioner call-in to a meeting and that his or her vote can be counted just as if he or she were sitting in the room. Any commissioner calling into a meeting must be available to questions from the public, same as if they were physically present. He also noted that if all commissioners are calling in for a meeting, someone must be physically present at BED to allow the public in to listen to the meeting.

Lastly Mr. Meyers noted that the meeting agenda should be published on the BED website as well as sent to the specific agenda distribution list so that it can be posted in other departments. The minutes from any given meeting must be posted, in draft form, on the BED website within five calendar days of the meeting.

This concluded the open meeting law discussion.

5. BURDES/District Heating (Discussion)

Jan Schultz was present to discuss the history of the district heating project. There were three studies completed between 1994 and 2002 that proposed using McNeil Station connected to UVM (and MCHV) to heat campus buildings using hot water or steam. In 2008, BURDES members proposed investigating a district heating project going to downtown Burlington. Evergreen Energy, the company that operates the largest wood-fired district energy system in the US in St. Paul, MN, completed the first feasibility study in June 2011. The study found that a medium temperature hot water system is technically feasible. The economic analysis depended on how the system would be implemented: scope, market penetration achieved, expansion rate, density of customer load during expansion, and credit and financing available. The study findings were presented to the public and to selected potential customers. State and Federal agencies with buildings downtown expressed strong interest. Fletcher Allen Health Care and UVM also expressed interest.

The second feasibility study – jointly funded by the McNeil Joint owners, UVM, FAHC and the BURDES committee was completed in April 2014 by Evergreen Energy. Over 40 buildings on both the UVM and FAHC campuses were studied in terms of peak demand and annual energy usage as well as the cost of conversion to a medium temperature hot water system. Three distribution system alternatives were considered and rated in terms of construction cost and challenges. McNeil Station was studied as the thermal energy source using both recovered flue gas and extraction steam. An estimate of construction cost was done

for building conversions, service laterals, energy transfer stations, distribution and production. An economic model and results, with suitable assumptions, was presented as well as a break-even analysis. Given the current cost of interruptible natural gas, and a mix of the studied buildings, the system is financially feasible right now.

The next steps would be to develop a business plan and then implement said business plan and system development. The business plan must carefully explore the assumptions in the feasibility study: initial anchor customers, distribution system routing, refine conceptual designs, business structure, energy services agreement, thermal energy agreement with McNeil joint owners. It must also carefully explore the project risks, develop a system-financing plan and secure costs and schedule for system development.

The BURDES committee has written a proposal to fund the first phase of business plan development. This phase will develop a financial model using the assumptions in the feasibility study as input parameters into the model and then use the model to decide whether to proceed with Phase II of the business plan development.

Several Commissioners expressed the importance of UVM's participation in both the project and the Phase 1 study. It was agreed that BED and BURDES would reach out to UVM to ascertain their interest and provide an update to the Commission at a future meeting.

6. KPMG Audit Presentation (Discussion)

Mr. Santerre was present for the audit report and discussion. Also present and presenting were Renee Bourget-Place, the Engagement Partner for BED and Heather Kuney, the Senior Manager on the audit.

Ms. Bourget-Place and Ms. Kuney completed their "Report to The Board of Electric Commissioners". It included: (1) a review of the audit objectives; (2) an overview of the FY 2013 audit results, (3) areas of emphasis during the audit, and (4) a brief discussion of BED's control environment. They also discussed the required communications, under "Statements on Auditing Standards" (SAS) No. 114, which include the "Management (Internal Control) Letter".

KMPG then reported that the audit opinion would be an unmodified (formerly known as an unqualified) opinion.

They 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 and (3) they encountered no difficulties in performing the audit; (4) they confirmed their independence with the respect to BED under all relevant professional and regulatory standards.

They then discussed two internal control issues. The first one was considered a significant deficiency (not a material weakness) and that was the customer billing errors discussed at the Commission's September 2014 meeting. KPMG recommended that the Department review its procedures related to manual billings to ensure that there are sufficient controls to review the preparation manual billings to customers, such as what occurs for the street light billing to the City of Burlington. In addition, they recommended that the work order system be interfaced with the billing system so that changes in street lights or other infrastructure are

more timely recognized and changed as required in the billing system. Management concurred with these two recommendations and shared that they had come up with several others. They have begun an in-depth, multi-part review to validate each billing process and hired KPMG Advisory Services to provide an independent, third-party assessment of BED billing practices and procedures. Some of the review the Department has implemented includes: a) undertaking a comprehensive review of meter configurations to verify accurate data collection and processing; b) launching a thorough field review of "current transformer" (CT) meters similar to the ECHO meter configuration and c) completing a desktop audit of previous CT meter configurations. As for the street light billings, The Department stated that they have implemented, or are in process of implementing, seven distinct procedural improvements and enhanced internal controls to guard against this error occurring in the future.

Although not considered to be a significant deficiency or material weakness in internal control, KPMG then discussed the second deficiency in internal control, which was the spare parts inventory control at the McNeil Station. They noted several variances during their inventory observation between the items that were in the spare parts inventory and what was recorded within the inventory ledger. They recommended that the Department perform a full inventory observation at the spare parts warehouse to determine the accuracy of the inventory balance within its inventory ledger. Once this is performed, they advised that Department should review, evaluate, and revise as needed its current policies and procedures over inventory to ensure that physical inventory counts are performed on a regular basis, physical access is limited to appropriate personnel, and items removed from inventory are properly authorized and accounted for. The Department concurred with the recommendations from KPMG and as they did with the previous recommendation, added measures they were taking on their own.

Ms. Bourget-Place then spent a few minutes discussing "Emerging Issues". She shared that there will be one major new GASB pronouncement to implement this coming fiscal year. It is GASB 68, "Accounting and Financial Reporting for Pensions". Essentially, this will require the Department to include within their financial statements (as a balance sheet liability) its share of the City's unfunded pension liability. It is too early to tell the impact on the Department's financial statements as it will require the actuary the City uses for the pension fund to estimate this liability. As soon as the Department receives this information it will include in a future discussion with the Commission.

KPMG then closed by stating that, although the financial reports are stamped as "drafts" , neither the Department or KPMG expect any material change from what was presented to when the reports are printed and distributed in final form within the next few weeks. If, however, there were significant or material changes, KPMG would report back to the Commission.

Commissioner Stephenson moved to accept the KPMG Audit Report subject to any material changes. The motion was seconded by Commissioner Herendeen and approved by all Commissioners present.

7. Commissioners' Corner (Discussion)

Commissioner Herendeen noted that he now has a completed legal review of the city lighting policy and has given it to Assistant City Attorney Gregg Meyers. Commissioner Herendeen plans to present the findings at

a later meeting and would like the UVM seniors working on the project to present their findings and safety concerns in early 2015.

Commissioner Moody noted that he and Charlie Willette met with residents of Crombie Street in Burlington at about 8:30pm on Tuesday 10/7. The consensus on Front Porch Forum is that half of the street has too much light and half has too little. This was a hands-on way to understand what residents want in terms of lighting on their street. Mr. Willette will be conducting a lighting study on the street to assess the next steps in addressing the amount of light on Crombie Street.

8. General Manager's Update/Commission Informational Items (Oral Update)

Mr. Lunderville asked Sagren Naicker of KPMG to present the executive summary of BED's billing process. Mr. Naicker joined the commission meeting via phone.

Mr. Naicker explained that the KPMG Advisory Services Group was engaged by BED for assistance in identifying gaps, weaknesses, and deficiencies in current state business customer billing processes. The review was focused on core billing processes with the goal of identifying and documenting discrepancies in each process to best practices, prioritizing the severity of any discrepancies, and documenting potential recommendations to resolve identified discrepancies.

KPMG reviewed and documented the core processes in collaboration with subject matter experts from BED, as a result of this review; KPMG identified 14 specific recommendations to improve current processes that we believe will help BED improve both the efficiency and effectiveness of its current operations and billing processes. Most of the recommendations are related to enabling automation in place of current manual processes.

Mr. Naicker highlighted the top-level recommendations. First would be to implement the 14 processes improvements. Second would be to start the organizational realignment. And the final recommendation would be to enhance communication and training within customer-facing and billing-related departments to minimize the likelihood of future billing errors.

Mr. Lunderville stated that BED has already begun implementing some KPMG's recommendations and that it would continue to do so. Some items will take longer than others to fully implement. Mr. Lunderville assured the commission that he would keep them apprised of BED's progress.

This concluded Mr. Naicker's billing issue update.

Mr. Lunderville noted that he wanted to address some customer concerns over several outages and bumps in the system. These small outages, more often than not, are caused by squirrels. BED staff has been diligently installing animal guards to prevent them from biting the wires but they are not always successful in preventing them from doing so. Mr. Willette is looking into other methods of preventing the squirrels from getting though.

Finally, Mr. Lunderville gave an update on the Connecticut REC market and flagged the issue for the Commission to follow in coming months. Connecticut PURA's decision as to whether or not Vermont RECs can be sold (either now or in the future) could have a significant impact on BED's budget and customer rates. The weather report from CT seems to indicate the PURA is moving away from Vermont's/BED's best interest, but since it's a quasi-judicial process there's no way to know with certainty. Mr. Lunderville assured the commission BED staff was tracking this issue closely and submitting comments to CT PURA as required. BED will keep the Commission informed.

9. July/August 2014 Financial Update (Discussion)

Mr. Santerre presented a brief review of the August 2014 year-to-date financial results.

This included a brief discussion of the $830,000 Net Income for the month and $2,314,000 Net Income year-to-date. It also included discussion of the Debt Coverage of 6.38 for the twelve months ended August 2014, and Cash and Construction Fund balances as of September 30, 2014. Mr. Santerre then provided a more detailed review of the individual line items.

Sales to Customers were down $60,000 (within 1% of budget) for the year and $66,000 for the month. Other Revenues were below budget by $87,000 (12.2%) for the year. These revenues (primarily DSM/State EEU) are primarily driven by customer demand and the timing of billings to the State.

Power Supply revenue, primarily REC sales, was down $922,000 year-to-date. McNeil REC revenue was down $1.1 million ($482,000 as compared to $1.6 million budgeted) as a result of the Department's position of holding off on future sales due to the Connecticut market exposure.

On the Expense side, power supply costs, year-to-date, were lower than budget by $81,000 (1.5%). Transmission fees were down by $79,000 as new ISO-NE rates went into effect in July while a cool summer began reducing BED's contribution to ISO peak loads.

Operating Expense year-to-date was down $97,000 (4%). The budget assumed expenses for Winooski One ($113,000) starting in July. The purchase was delayed until August 29th.

Taxes were down $61,000 year-to-date. The budget assumed Property Taxes for Winooski One starting in July. Likewise, Depreciation & Gain/Loss on Plant was lower than budget by $94,000 for the year as the Budget assumed depreciation for Winooski One starting in July.

Other Income was down $99,000 for the year due to assumed contributions for the City's Waterfront North Access Project of $116,500.

Interest Expense for the year was down $93,000 as a result of timing of the Winooski One Revenue Bond. The bond closed on August 28th.

Mr. Santerre then discussed Capital Spending. In total, through September, capital spending was 12% ($1,253,000) of the $10,262,000 budgeted for fiscal year 2015. Production capital was less than budget

($50,000 of $1,108,000) as the Gas Turbine control upgrade ($1,000,000) has been delayed until November-February. Distribution spending was under budget ($1,127,000 spent as compared to the budget of $2,797,000), primarily due to the timing of Airport Solar project ($923,000), which began around October 1st and the GIS Outage Management System ($486,000) which is on hold pending a broader review of our software needs. Finally, General Plant (585 Pine St) was below budget ($76,000 of $643,000 budgeted) due to the timing of various IT projects including the Field Area Network which is on hold ($276,000).

On the cash side, we closed the month of September with a $4,822,200 balance in the Operating Fund (the budget was a balance of $5,412,000). Had the REC sales occurred as per the Budget, the balance would have been close to $6 million. These sales will hopefully happen later in the year.

In other Cash accounts, Construction Fund 2009 (unused monies from the $36.6 million general obligation bond) was at $2,103,300 as September 30. The Winooski One purchase used $2,000,000 of the previous balance. The remaining balance will be used for the Airport solar and other solar projects with the Department.

Mr. Santerre also reported that as of September 30, 2014 the Operating Fund Reserve was at $5,121,800. That balance reflects the use of $2,278,200 for Winooski One purchase on September 2nd. This reserve is now unrestricted and discretionary, however will be used to reimburse the City for about $1,500,000 for street light billing error and $1,815,000 will be used for Velco stock to be purchased in December.

Our $5 million Line-Of-Credit (LOC) with Key Bank is available, but remains at a $0 balance. Mr. Santerre mentioned that we are close to having new terms on this LOC which would eliminate the language (MAC or Material Adverse Condition). This is the language in LOCs which Moody's Bond Rating Services disallows for Cash on Hand calculations. This will help us reach our 90 days cash on hand target (single A rating) in the future.

Mr. Santerre then discussed the three schedules that pertain to the Moody's bond ratings, and therefore are important to be tracking. These calculations reflect both current month and three year historical indicators. (Moody's uses three years of historical information in their ratings reviews.)

The first indicator we reviewed was the "Adjusted Debt Service Coverage Ratio". This looks at our ability to meet cash obligations, including general obligation bonds and payments-in-lieu-of-taxes to the City, both of which are excluded from the revenue bond debt coverage (1.25) calculation. This ratio is weighted at 10% in the Moody's formula for municipal electric utilities. An "A" rating requires a minimum coverage of 1.50, while a Baa requires a minimum of 1.10. The Department is currently rated at Baa2 and this month's ratio was calculated at 2.26. This is the first time we have been above 1.50 (A rating requirement) since we have been tracking these ratios. Both are very close to an A rating. The three year average, however, remains at 1.31, below the requirement.

The second indicator we reviewed was the "Days Cash On Hand". This measures how many days of operating expense could your current cash position hold out for. It is a 10% weighted factor in Moody's bond ratings formula for municipal electric utilities. An "A" rating requires a minimum of 90 days, while a Baa requires a minimum of 30 days. The Department is currently rated at Baa. This month's calculations showed an 80 day position and the three year average was 57 days. This shows us between the Baa2 and the

A rating.

The third and final indicator was the "Debt Ratio". This is a measure of how much of your current book value of assets is covered by outstanding debt. The lower the debt ratio, the better the rating from Moody's will be. It is a 10% weighted factor in Moody's bond ratings formula for municipal electric utilities. An "A" rating requires a ratio lower than 75%. A "Baa" rating would be result if the ratio was above the 75%. The Department is currently rated at Baa2. This month's calculation for debt ratio showed us at a 52% debt ratio and the three year historical average was at 50%. Therefore, this measure is considered an "A" rating for this ratio.

10. New England Central Railroad Contract (Discussion and Vote)

McNeil is required to receive 75% of wood deliveries by rail, and contracts with New England Central Railroad. The contract ended on September 30th, and BED and NECR agreed to extend the existing contract one month to get a new contract approved. The contract for which BED is asking approval is the same as the last contract with a 3% price increase. It was summarized in a letter from NECR dated September 30, 2014. It will be necessary to get Board of Finance and City Council approval too. After discussion, the BEC approved the contract, but requested that the final contract be presented to the Board of Finance and City Council.

Commissioner Stephenson moved to approve the New England Central Railroad contact for both the one month extension and the one year extension. The motion was seconded by Commissioner Stebbins and approved by all Commissioners present.

There being no further business to discuss, Commissioners Moody and Stebbins moved to adjourn at 8:41 p.m. which was approved by all Commissioners present.

Attest:

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Laurie Lemieux, Temporary Board Clerk