MINUTES OF REGULAR MEETING
BURLINGTON ELECTRIC COMMISSION

Wednesday, July 16, 2014 – 5:30 p.m.

The regular meeting of the Burlington Electric Commission was convened at 5:35 p.m. on Wednesday, July 16, 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, and Munir Kasti.

Other staff members present included Laura Babcock, clerk.

Channel 17 was present to tape this meeting.

Ms. Babcock called the meeting to order at 5:35 p.m.

Commissioner Herendeen nominated Commissioner Spencer Newman for Chair of the BEC. The nomination was seconded by Commissioner Moody and approved by all Commissioners present.

Commissioner Herendeen nominated Commissioner Scott Moody for Vice Chair of the BEC. The nomination was seconded by Commissioner Stephenson and approved by all Commissioners present.

Commissioner Herendeen nominated Laura Babcock as the Clerk of the BEC. The nomination was seconded by Commissioner Moody and approved by all Commissioners present.

1. Agenda

Commissioner Newman asked to move item 6, introduction of BED's new General Manager (GM), to item 2.5.

The motion was approved by all commissioners present.

2. Minutes of the June 11, 2014 meeting:

Commissioner Stephenson moved to accept the minutes for the June 11, 2014 meeting. The motion was seconded by Commissioner Herendeen and approved by all Commissioners present.

2.5 Introduction of New BED GM Neale Lunderville

Mr. Lunderville thanked BED staff for the warm welcome. He explained that he had utility experience having been Co-Founder and CEO of NG Advantage. He also worked for Green Mountain Power and was asked by Governor Shumlin to lead the Tropical Storm Irene recovery effort.

Mr. Lunderville noted that he was excited to work for BED, which has such a great reputation and that the Mayor has asked to submit an assessment of BED at the end of his time here.

3. Public Forum

There was no one present from the public.

3.5 Commissioners' Corner

Commissioner Newman welcomed BED's new general manager, Neale Lunderville. Commissioner Newman also welcomed new commissioner, Gabrielle Stebbins.

Commissioner Herendeen informed the commission that he has been working with a law student from the Vermont Law School and he will be meeting with Paul Alexander and the City Attorney's Office.

4. General Manager/Commission Information Items (Oral Update)

Having started on Tuesday, Mr. Lunderville stated he did not have much to report but was looking forward to giving a proper update at the next meeting. He also said that he'd been meeting with each manager individually to get a sense of their role and meeting their staff.

5. May 2014 Financial Update (Discussion)

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

This included a brief discussion of the $372,000 Net Loss for the month (we had budgeted a $708,000 Loss) and $3,440,000 Net Income year-to-date. It also included discussion of the Debt Coverage of 2.63 for the twelve months ended May 2014, and Cash and Construction Fund balances as of June 30, 2014. Mr. Santerre then provided a more detailed review of the individual line items.

Sales to Customers were up $784,000 (1.8%) for the year and $62,000 (1.7%) for the month. Other Revenues (primarily DSM/State EEU) were below budget by $293,000 (6.2%) for the year. Any variance for this line item can be explained by the fact that these revenues are primarily driven by customer demand and the timing of billings to the State.

Power Supply revenue, primarily REC sales was up $3.4 million year-to-date. McNeil REC revenue was up

$2.6 million ($7.5 million as compared to $4.9 million budgeted) and wind REC revenue was up $700,000 ($3.5 million as compared to $2.8 million budgeted). Market prices for RECs continue to be strong.

On the Expense side, power supply costs, year-to-date, were lower than budget by 2.1% ($631,000). Although McNeil fuel costs were up $1.4 million (due to production being up 18% for the year), this was offset by lower purchased power costs of $2.1 million.

Operating Expense year-to-date was close to budget. We were within 3.8% of budget ($554,000 over on a $14,428,000 year-to-date budget). The primary reason for the difference is that we have expensed $427,000 of legal and other costs associated with the Winooski One Hydro Plant purchase. These costs will be capitalized (removed from expense) when we finalize the purchase. In addition, administrative & general expense charged to capital was less than budget by $226,000. (This means more charged to expense.) If you adjusted for these two items we would be under budget.

Taxes were in line with budget, with minimal differences.

Depreciation & Gain/Loss on Plant was over budget by $520,000 for the year. Late last year, we retired from service several large substations (Lake St & College St). These substations had un-depreciated balances of $340,000, which needed to be written off. That was done in July of this year. In addition, for the month of May we wrote off one of the last group of retired meters.

Other Income was down $599,000 for the year due to assumed contributions for both Shelburne Street and the City's Waterfront North Access Project.

Interest Expense was right in-line with budget.

Mr. Santerre then mentioned the debt coverage of 2.63. This is almost double the 1.25 required, and is a 12 month calculation.

Mr. Santerre then discussed Capital Spending. In total, through June year end, we had expended 100% of the $6,732,000 budgeted for fiscal year 2014. The $7,135,000 actual expenditure was over budget due to the investment in Velco (discussed later), which did get Electric Commission and City Council approvals. Production (McNeil Plant) capital was less than budget ($553,000 of $788,000). Although the four new rail cars were purchased, the ash dump truck and certain other equipment was deferred. For transmission plant, it was the investment of $1,815,000 in Velco equity in December. This was not budgeted for as Velco was not anticipating this additional equity. This investment yields a 12.5% average return. Distribution spending was under budget ($3,882,000 spent as compared to the budget of $4,997,000), primarily due to the timing on several projects, including Cherry Street ($480,000), and the GIS Outage Management System ($679,000). Also, there were several projects budgeted for FY14 that were completed in late FY13. Finally, General plant (585 Pine Street capital) was right in line with budget ($945,000 of $946,000 budgeted).

On the cash side, we closed the year ended June 30 with a $4,208,700 balance in the Operating Account (the budget was a balance of $3,334,000). The balance would have been just over $6 million if the $1.8 million investment in Velco equity, which was not budgeted for, had not come out of Operating Funds. REC sales at high market prices continue to a primary driver of the cash balance improvement.

In other Cash accounts, the Construction Fund 2009 (unused monies from the $36.6 million general obligation bond) was at $4,103,300. This amount has been set aside for future renewable energy projects. This money will be expended with the various solar projects forthcoming and the Winooski One purchase. The Construction Fund for the 2012 Revenue Bond, which was at $375,000 is now at $0 as the monies have been expended. Likewise, the $743,800 balance last month in the $3 million GOB for FY14 is at $0 as it has been fully expended.

Our $5 million Line-Of-Credit (LOC) with Key Bank is available, but remains at a $0 balance.

Mr. Santerre then discussed the three schedules that pertain to the Moody's bond ratings, and therefore are important to be tracking. The graphs now reflect both current month and three year historical indicators. This is to present the most conservative position of where we are with these indices and to be in line with Moody's, which uses three years of historical information in their ratings reviews.

The first graph 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 1.49 and 1.27 for a three year average. Both are very close to an A rating.

The second graph 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 a 71 day position and the three year average was 53 days. Like the previous ratio, this shows us between the Baa2 and the A rating.

It was noted during the presentation that this indicator includes our $5 million available line-of-credit (LOC) as cash. However, there is certain language that is required in the LOC agreement for Moody's to consider this as available cash. If they determine that our agreement does not meet that test, we would remove the additional $5 million. This would lower these "days cash on hand" figures significantly.

The third and final graph 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 42% debt ratio and the three year historical average was at 51%. Although the three year average is much higher than the current percentage, it is still well below the 75% required for an "A" rating. Therefore, this measure is considered an "A" rating for this ratio.

6. Bank Signing Authority (Discussion and Vote)

Mr. Santerre requested a motion that would remove Barbara Grimes and add Neale Lunderville to the bank signing authority list. In the event that Mr. Santerre, CFO, and Mr. Gravelin, Controller, were not available to sign; Mr. Lunderville would be able to do so.

Commissioner Herendeen moved to remove Barbara Grimes and add Neale Lunderville to the bank signing authority list. The motion was seconded by Commissioner Moody and approved by all Commissioners present.

7. Rate Design and Cost of Service Process (Discussion)

Mr. Nolan was present to give an update on the rate design and cost of service process. In the rate research that was done, several factors were considered including: rates that make use of Advanced Metering Infrastructure (AMI) functionality (i.e., "dynamic rates"); ; changed to current rates to reflect industry best practice; and consumer feedback. There will also be a study done on class cost of service. Next, retail rates will be designed based on these studies. Mr. Nolan also stated they intend to implement focus groups to review research findings and discuss its application to Burlington. They plan to have separate residential, commercial, and industrial groups at a minimum.

The first two steps will be used to develop new rates. These rates will offer more dynamic options and will consider revenue erosion potential. They will continue to reflect BED goals and policies. The RFP process developed a list of 14 potential consultants and was posted using the typical BED process. All potential consultants were contacted by BED staff to make certain they were aware of the posting. Four responses were received. BED resource planning and customer service staff reviewed the four responses and prepared questions where clarification was needed. The major decision criteria included price, project management approach and credentials, technical staff credentials, technical approach, public outreach approach, recent experience with dynamic rates, and Vermont based experience.

A preliminary winner has been determined, though there are some remaining concerns. Staff plans to check references and talk with the Vermont Department of Public Service. Mr. Nolan stated that they are not ready to award the contract just yet but are in talks with the winning company. Staff plans to bring the contract to the commission for approval in August or September 2014. The contract will also need Board of Finance and City Council approval. Mr. Nolan stated that he expects work to begin in September or October of this year.

8. McNeil Boiler Superheater Replacement (Discussion)

Mr. Irving informed the commission that during the April 2014 yearly overhaul, a leak in the boiler's superheater was discovered. He explained that the leak is a jet, not a gush, of water that leaks ounces per hour as opposed to gallon per hour. The superheater is located inside the boiler, seven stories in the air. They also discovered thinning in many of the tubes so they decided to replace them all at one time. The tubes were ordered from Germany and shipped to Delaware where they will be fabricated and stored until the April

2015 outage, when they can be installed. Due to the time sensitive nature of this project, Mr. Irving informed the commission that after getting the approval from the joint owners, he went to the Board of Finance and the City Council for approval.

Commissioner Newman noted that Mr. Irving did contact him on vacation to make him aware of the situation and that he understood why he could not wait to present to the commission first.

Commissioner Moody moved to approve the McNeil boiler superheater replacement. The motion was seconded by Commissioner Herendeen and approved by all Commissioners present.

There being no further business to discuss, Commissioners Stephenson and Moody moved to adjourn at 6:42 p.m. which was approved by all Commissioners present.

Attest:

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Laura Babcock, Clerk