MINUTES OF REGULAR MEETING
BURLINGTON ELECTRIC COMMISSION

Wednesday, September 10, 2014 – 5:30 p.m.

The regular meeting of the Burlington Electric Commission was convened at 5:33 p.m. on Wednesday, September 10, 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, and Munir Kasti.

Other staff members present included Laura Babcock, clerk.

Channel 17 was present to tape this meeting.

Commissioner Newman called the meeting to order at 5:33 p.m.

1. Agenda

Commissioner Newman moved to remove agenda items 4 and 5, and postpone them to the October meeting. He also asked to make the billing update its own item.

The motion was approved by all commissioners present.

2. Minutes of the July 16, 2014 and July 29, 2014 meeting:

Commissioner Moody moved to accept the minutes for the July 16, 2014 and the July 29, 2014 meetings. The motion was seconded by Commissioner Stephenson and approved by all Commissioners present.

3. Public Forum

Gregory Roy was present from public.

4. Billing Issue Update (Discussion)

Mr. Lunderville provided a high-level review of the memorandum that BED distributed publically on Friday, September 5, 2014 [memo attached to minutes for reference]. Mr. Lunderville reported that KPMG will begin their review on September 15, 2014 with the goal of having a report by the end of October.

The Commissioners expressed general support for the aggressive and transparent response by BED staff on this issue and then asked clarifying questions of Mr. Lunderville, Mr. Nolan, and Mr. Buckley.

Commissioner Herendeen inquired about where the responsibility lies within BED for these errors. Mr. Lunderville explained there were multiple points of failure through the many years these errors persisted and no one person can, or should be, to blame. Mr. Lunderville said that BED is looking forward and working hard to make sure errors are not repeated in the future.

Commissioner Stephenson asked questions about the errors' discovery, timing and communication with customers. He asked who the Commission should thank for catching the errors. He asked what plans BED had to communicate the utility's financial stability; Mr. Lunderville outlined several steps and acknowledged BED will have to work harder now given the recent headlines. Commissioner Stephenson asked specific questions about smart meter billing; Mr. Nolan provided a detailed response on the process and why BED is confident no systemic errors occurred for residential and small commercial customers.

Commissioner Stebbins asked about manual billing processes and non-AMI meters and Mr. Lunderville outlined AMI and non-AMI processes.

Commissioner Moody asked questions about the lag in finding this error. He also inquired about the six year payback window with the City; Mr. Lunderville and Mr. Nolan explained State statute of limitations, industry practice, FERC precedent, and the Public Service Board's expected review.

Commissioner Newman asked that there be a standing Billing Issue Update item on the agenda every 60 days. He also asked that KPMG report out at the Commission's November meeting. Mr. Lunderville agreed.

4.5 Commissioners' Corner

Commissioner Moody mentioned that he was very pleased with the Winooski One purchase and press conference, which the other commissioners agreed went very well.

Commissioner Herendeen mentioned the dark skies initiative and that he'd been working with a UVM law student. He stated he did not have formal report just yet but that he would be looking to present one at a future commission meeting.

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

Mr. Lunderville noted that it had been about 60 days since he started at BED. He noted that although billing has taken up a good chunk of time, he has learned a lot about the utility and is enthusiastic about its future. He said that one reason that he is enjoying it is because of BED employees' love of both the organization and its customers.

Mr. Lunderville also stated he is currently in the process of meeting with BED's top 10 customers.

BED is also working on promoting electric vehicles in the city and making them more visible. He noted that staff is working with CarShare VT and have added a bicycle to BED's car share.

Mr. Lunderville asked Ken Nolan to address Certificate of Public Good for the airport solar project.

Mr. Nolan stated that after consulting with Bill Ellis, staff was advised that BED had authority, within the Resolution passed by the city council approving the airport solar Project, to execute changes to its contract with Encore Redevelopment for construction of that Project so long as the General Manager informs the Commission of his intent to execute them prior to actually signing. Mr. Nolan distributed a memo to serve as the General Manager's intent to execute Addendum #1 and #2 to the Encore Redevelopment contract.

Addendum #1 modified the original Attachment 1 (major equipment list) to conform to the final design of the array. This addendum will increase the total DC rating of the installed panels from the "approximately 537 kWdc" contained in the contract to a final 576.5 kWdc which will make the greatest possible use of the space available on the roof.

In addition Addendum 1 will change the Project from using a single 500 KW DC-AC inverter to a series of "string" inverters. The change to string inverters will have a number of effects on the Project. The primary reason for the change is to alleviate point loading concerns associated with the weight of a single inverter that were identified by the structural engineer during design. Mr. Nolan explained that the change had an adverse impact in that it triggered the need for a seven foot fence to replace the existing six foot fence separating the array from the rooftop park (estimated cost $15,000) – the airport has agreed to this change and Encore has agreed to absorb the cost within the original $/watt quote. The change also causes a minimal (1 kw) reduction in the Project's AC rating.

In total, Addendum 1 will increase the cost of the Encore Redevelopment contract from $1,213,620 to $1,302,777 (+$89,157) due to the larger kWdc size; however, the total Project cost will remain within the $1,500,000 previously authorized by the Electric Commission and City Council. Further, the increased cost, offset by the increased production, results in a net reduction in the expected levelized cost per kwh of 1.9% producing overall savings to BED ratepayers over the Project's life.

Addendum #2 will be for an approximate $30,000 to compensate Encore Redevelopment for the procurement and installation of a breaker between the inverters and the distribution transformer serving the Project. Mr. Nolan explained that the actual dollar amount is still being firmed up as part of an update of BED's interconnection study to incorporate the string inverter design. However, conceptually the original contract envisioned BED installing all equipment between the inverter and the transformer. It has become clear through the design process that having Encore install all equipment up to the transformer itself would be more efficient. This Addendum will have no effect on the overall Project costs, but will simply move costs BED expected to incur directly into the contract with Encore Redevelopment.

Encore will be signing the EPC contract for this project within the next 1 to 2 days, and will require payment from BED for the procurement milestone in the BED-Encore contract at the time the EPC contract is executed. To make that milestone payment BED needs to first execute Addendum #1 identifying the final material list. As a result of this tight timeline (which allows construction to proceed this fall), BED will be executing Addendum #1 by the end of this week.

Mr. Nolan stated that if there were no objections from the electric commission then the General Manager, Mr. Lunderville, could sign the contracts with no further approval needed.

There were no objections or concerns raised by any commissioners present.

6. Property/B&M Renewal (Discussion and Vote)

Paul Alexander, Manager of Risk Management and Governmental Affairs, presented the insurance renewal contracts.

BED's current Property/B&M Insurance coverage with NU/Chartis/AIG is scheduled to expire on 10/1/2014 for which we currently pay a premium of $225,600. Through BED's broker/agent (Paul Plunkett of Hickok & Boardman) we have been in the process of securing bids from major carriers AIG, ACE, Chubb and Liberty Mutual (see attached pdf *H&B Backup Info 2014*). Of the responses, the incumbent carrier (AIG) is offering the best terms. Their quote of $249,354 is 10.53% higher compared to last year's premium with the same sub-limits and deductibles (Note: Winooski One Project: "W1P" is new), driven primarily by the increase in premium of 11.29% by the addition of such project (at the higher rate of $0.157). The overall premium amount of $249,354 is 4.3% lower compared to what was estimated in the FY'15 budget ($260,631) at renewal. ACE's quote was $298,077, Chubb's quote was $306,151 and Liberty Mutual indicated that could not compete with either on price and the W1P was an issue for them. Our Property total insurance value (TIV) minis W1P, of $246,501,000 is 0.79% lower compared to last year's $248,460,000 TIV, and AIG's very competitive rate of $.09082 per $100 of TIV (vs. last year's $0.09080) is basically "flat". Mr. Alexander concluded that, in summary, staff is seeking approval to bind this coverage with NU/Chartis/AIG at a price of $249,354.

BED's FY'15 budgeted amount of $251,783 (produced in January 2014) was calculated using 3 months at the "current/known" premium amount ($225,600) and 9 months at the projected amount ($260,631) which was calculated using an estimated 5.0% increase in TIV, a 2.00% increase in basic property rates, and estimates for the W1P ($16M) and the pending solar projects both at BED ($250g) and the Airport ($1M). Please note that the insurance policy period is from 10/1/14 to 10/1/15, whereas our fiscal year period is from 7/1/14 through 6/30/15. The quote of $249,354 is 1.00% lower compared to the Full FY'15 estimate of $251,873.

Commissioner Stephenson moved to approve the property/B&M renewal contract. The motion was seconded by Commissioner Stebbins and approved by all Commissioners present.

7. Installation Portion of Superheater (Discussion and Vote)

Mr. Irving reminded the commission that during the April 2014 yearly overhaul, a leak in the boiler's superheater was discovered. 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. Mr. Irving received several bids, with a wide range of pricing, to do the installation work. Healfrich Brothers Boiler Works bid $360,000 and offer a unique method of

installation. Staff checked all of Healfrich Brothers Boiler Works references and they came highly recommended.

Commissioner Herendeen moved to recommend the superheater installation contract with Healfrich Brothers Boiler Works in the amount of $360,000 be approved by the Board of Finance and the City Council. The motion was seconded by Commissioner Moody and approved by all Commissioners present.

8. June 2014 Financial Update (Discussion)

Prior to the June financial update Mr. Santerre provided some additional clarification on the materiality and financial impacts of the UVM and City of Burlington billing errors.

Mr. Santerre stated that there would be no impact on current or future electric rates as a direct result of the recording and payment of these billing errors. The accounting for the errors would happen entirely in fiscal year 2014. That is, although the payments will be made in fiscal year 2015, the accounting requirement is to "book" in the fiscal year we are closing. The combined impact of approximately $1.8 million will be to reduce our Net Income (unaudited) for the year from $3.7 million to $1.9 million. This compares to a budget of $391,000 for the year. The cash impact will be to reduce projected fiscal year 2015 ending cash from $7.5 million to approximately $5.7 million. This is provided we stay in line with all other budget line items. The debt service coverage ratio, with the full six year impact in fiscal year 2014 would be reduced from approximately 3.0 to 2.7, still well above the 1.25 required by our revenue bonds..

Mr. Santerre then presented a brief review of the June 2014 year-to-date financial results. These were "unaudited" results as the auditors have not completed their audit and report. This will be presented at the October 2014 Commission meeting.

This included a brief discussion of the $1,551,000 Net Loss for the month (a result of two billing errors at a combined amount of approximately $1.8 million) and $1,888,000 Net Income year-to-date. It also included discussion of the Debt Coverage of 2.7 for the twelve months ended June 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 down $887,000 (1.9%) for the year and $1,672,000 for the month. This was the result of the billing error adjustments for street lighting ($1,450,000) and UVM ($357,800). Without this correction, sales to customers would have been up 1.9% (or $913,000) for the year and 3% (or $128,000) for the month of June. Other Revenues (primarily DSM/State EEU) were below budget by $316,000 (6%) 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 $2.7 million ($7.6 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 $273,000 (less than 1%). Although McNeil fuel costs were up $1.7 million (due to production being up 17.2% for the year), and

transmission fees were up by $330,000, these were offset by lower purchased power costs of $2.3 million.

Operating Expenses year-to-date was within 0.25% of budget ($33,000 over on a $15,693,000 year-to-date budget). The month of June was lower than budget by $522,000. June included an adjustment to capitalize legal and technical expenses ($801,000) with the purchase of Winooski One.

Taxes were in line with budget, year to date.

Depreciation & Gain/Loss on Plant was over budget by $316,000 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.

Other Income was down $851,000 for the year and $251,000 for the month of June due to assumed contributions for the City's Waterfront North Access Project.

Interest Expense for the year was down $206,000 as a result of no deferred issue cost due to new GASB requirement.

Mr. Santerre then mentioned the debt coverage of 2.7. 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, BED had expended 100% of the $6,732,000 budgeted for fiscal year 2014. The $7,281,000 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 ($566,000 of $788,000). Although the four new rail cars were purchased, the ash dump truck and certain other equipment were 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 ($3,939,000 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 ($961,000 of $946,000 budgeted).

On the cash side, BED closed the year ended June 30 with a $4,208,700 balance in the Operating Fund (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 be a primary driver of the cash balance improvement.
Mr. Santerre also shared that the July 31 balance was $4,922,800 as compared to a budget of $5,772,000 and the August 31 balance was $5,223,600 as compared to $5,275,000. The July balance was under what was expected as a result of a timing issue with a REC payment which was received in August rather than July. Both of these balances did not have the impacts of the billing errors or the purchase of Winooski One included, both of which occurred in September.

In other Cash accounts, the Construction Fund 2009 (unused monies from the $36.6 million general obligation bond) was at $4,103,300 as June 30, as well as through july and August. The Winooski One

purchase (cash was wired on September 2nd) used $2,000,000 of this balance and will be reflected with the ending September balance. The balance after that will be used for the Airport solar and other solar projects with the Department. We had transferred $800,000 of this Fund to the Operating Fund in June for Winooski One arbitration, legal and other expenses to date.

Mr. Santerre also reported that as of August 31, 2014 BED was in receipt of $7.4 million of excess debt service reserve funds. $2.3 million of that balance was used on September 2nd for towards the Winooski One purchase, leaving a balance of approximately $5.1 million. This reserve is now unrestricted and discretionary and will be used to make the payments on both the UVM and City of Burlington billing errors. The expected balance at the end of September, after making those payments, would be approximately $3.8 million.

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 calculations 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 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 1.38 and 1.27 for a three year average. Both are very close to an A rating.

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 a 73 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 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 42% debt ratio and the three year historical average was at 50%. 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.

This concluded the presentation and discussion.

9. Rate Design RFP (Discussion and Vote)

Ken Nolan was present to discuss the contract for rate design services between BED and Burns & McDonnell. The agreement is 90% complete with staff finishing some of the logistical issues and seeking legal sign off.

Mr. Nolan noted that, as discussed with the BEC previously, this contract is structured in three parts:

The first part stipulates that Burns & McDonnell will conduct research on dynamic rate structures throughout the U.S. paying close attention to ARRA recipient results. They will develop recommendations for BED based on their findings, and will conduct focus groups and outreach efforts to gauge customer reaction to various concepts. This part will culminate with a formal recommendation of new rates for BED to develop, as well as recommendations for possible revisions in BED's existing rates to bring them up to industry standards.

Next, Burns & McDonnell will perform a class cost of service study using BED's historic cost and load data. This is a standard study conducted by utilities every 5-10 years to insure customer classes are designed appropriately and are appropriately paying their share of utility costs. This part of the work will culminate with proposed revisions to BED's existing rates, if necessary, to reallocate costs to appropriate customer classes.

And finally, once the existing rates are reset to appropriate levels, Burns & McDonnell will develop the new dynamic rates identified in part 1 in a manner that makes them rate neutral to BED. That is, the rates will be developed such that a customer moving between BED's historic rates and the new dynamic rate will not increase or decrease BED's revenues.

Upon completion of this effort the intent is for BED to have its existing rates reflect the actual cost to serve each customer class in the new smart grid environment and for BED to have new rates in place that allow customers to take advantage of the new technology to reduce their costs.

Mr. Nolan stated that this effort is anticipated to take roughly 1-year and involve multiple points of input from the Commission, City Council, and customers.

Commissioner Herendeen moved to approve the contract for rate design and cost of service consulting services with Burns & McDonnell in substantially the form presented. The motion was seconded by Commissioner Stephenson and approved by all Commissioners present.

There being no further business to discuss, Commissioners Moody and Stebbins moved to adjourn at 7:39 p.m. which was approved by all Commissioners present.

Attest:

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Laura Babcock, Clerk