

DRAFT

McNeil Station Joint Ownership Operating Committee Meeting Minutes

The meeting of the McNeil Station Joint Ownership Operating Committee convened at 12:05

P.M. on Tuesday December 3, 2019 at the McNeil Generating Station Farmhouse.

Present: David MacDonnell, BED, Betsy Lesnikoski, BED, Ying Liu, BED, Douglas Smith, GMP, Munir Kasti, BED, Paul Alexander, BED, Darren Springer, BED, Emily Stebbins – Wheelock, BED, James Gibbons, BED, and Ken Nolan, VPPSA.

Others Present: Colleen Rouille, BED

# Agenda

D. MacDonnell, BED, made two changes to the agenda. The first change was to delete the November Operating Report because it was not ready to present. The second was to change item number 8, B&M Insurance Coverage, to Item number 4. K. Nolan, VPPSA, made a motion to approve the amended agenda; the motion was seconded by D. Springer, BED, and approved by all Joint Owners present.

# Review of Joint Owner Operating Committee Meeting Minutes of October 21, 2019

No changes were made to the minutes. K. Nolan, VPPSA made a motion to approve the Joint Owner Committee meeting minutes of October 21, 2019; the motion was seconded by D. Springer, BED, and approved by all Joint Owners present.

# Public Forum

There was no one present from the public.

# Property/B&M Insurance Renewal

P. Alexander, BED, gave an update on the Property/B&M insurance renewal. The current status is that our current Property/B&M Insurance coverage with NU/Chartis/AIG was scheduled to expire on 10/1/2019 for which we paid an annual premium of $228,762.

New this year, we learned in late August of 2019 via our insurance agent (Paul Plunkett of Hickok & Boardman: H&B) that our incumbent carrier (AIG) was reducing our “capacity” (the largest amount of insurance that a company or the market is able to write) to only 30% of the total insurable value, which meant H&B had to find other carriers to “fill in” the other 70% of capacity or find another carrier altogether to underwrite this line of business. As such, H&B has been in the process of securing bids from several participating carriers (H&B went out to 25 total markets). The renewal premium was first anticipated to increase from the current amount of $228,762 to $375,000, but in the last 90+ days the insurance market has experienced significant restricted coverage as well as raised rates such that H&B has indicated that the annual premium could be as high as $600,000 with a capped Total Insurable Value (TIV) of $175,000,000 of property (vs. our current fully scheduled TIV of $262,064,000).  Due to these significant changes, AIG granted BED a policy extension under current pricing, terms and conditions to the now new renewal date of 11/20/19 (from first 10/1/19 and then to 11/1/19).  H&B has since partnered with a large insurance “brokerage/agency” company called Acrisureto help search and place our future quota share program structure with carriers.

In summary, the Burlington Electric Commission, Finance Board and City Council authorized the Electric Department to renew our Property/B&M Insurance with NU/CHARTIS/AIG serving as the market lead for the policy period 11/20/2019 – 11/20/2020 with a “*not to exceed*” premium limit of $600,000.

D. Smith, GMP, asked if the increase was reflected in the CY2020 budget they are about to vote on. C. Rouille, BED, answered that the Joint Owner portion is reflected in the budget and that the amount they are responsible for is only a percentage of the total increase being discussed.

# Overview of Operating and Generating Reports for October 2019.

D. MacDonnell. BED, summarized the operating reports for the month of October 2019. In October 2019, McNeil has a capacity factor of 43.4 percent. There were some reductions and limitations during the month. There was a water well tube leak and two economizer tube leaks. Stack testing was also done in October, 2019, and the preliminary results look good.

# Fuel Procurement Update

B. Lesnikoski, BED, updated the Joint Owners saying that McNeil has about 24,000 tons of wood in inventory. McNeil is trying to grow that for the winter so there will be a good supply to run the plant when the prices are high. November is a tough month for wood supply but with the cold weather and a little snow it helps freeze truck roads and landings and hopefully deliveries will pick up. Currently, McNeil is seeing a lot of competition from the pulp wood market because they are looking for wood also. Their prices are higher than McNeil’s and that impacts the amount of chip wood that is available to us. McNeil needs to be thinking ahead if we should mix some of the pulp wood with the chip wood side of things and provide some production incentives to convince them to send their wood to McNeil rather than the pulp wood markets. Financially this would make sense to the suppliers. M. Kasti, BED, mentioned that there were two recent incentives that happened in the past few months to increase the wood supply. B. Lesnikoski, BED, said the first incentive is a mileage incentive where suppliers that are over 70 miles away from Swanton can get a two dollar per ton incentive. This covers the extra mileage expense and levels the playing field with the other suppliers. The second incentive raised the dollar per ton from $27.00 to 28.00 to all suppliers which did not produce any results in wood supply or delivery.

# Financial Review

Y. Liu, BED, said that the total expenses on the calendar year to date budget through September 2019 are $18,718,967. This is $3,645,302 below budget. $1,754,242 of the favorable variance is the fuel expense due to the overhaul that happened in May and June and not running as much for economic reasons. The other area that were notably underspent were the steam expenses by $366,149, the boiler plant expenses by $615,268 and the electric plant maintenance expenses by $448,667. The total budget through September 30 was underspent by 3,645,302.

# McNeil Operating Statement

Y. Liu, BED, presented the McNeil operating statement with McNeil revenue and expense for fiscal year to date through September 30, 2019. Also included is calendar year to date through September 30, 2019. In the September fiscal year to date 2020 numbers, the total revenue was $5,615,547 compared to 7,786,488 in September fiscal year 2019. The total fuel expenses were $4,549,343 in fiscal year 2020 compared to $3,980,792 in fiscal year 2019, and the total other expenses including depreciation were $2,335,571 in fiscal year 2020 compared to $2,302,144 in fiscal year 2019. The net loss before interest expense including depreciation was ($1,269,368) in fiscal year 2020 compared to a net income of $1,503,551 in 2019. Total fuel expenses and other expenses in FY2020 are in line with FY2019. The net loss in FY 2020 was due to decreased revenue.

In the September calendar year to date 2019 numbers, the total revenue was $15,350,651 compared to $21,104,442 in calendar year 2018, the total fuel expenses were $9,944,226 compared to $11,609,063 in 2018 and the total other expenses including deprecation were $9,966,186 in 2019 compared to $6,993,378 in 2018. The net loss before interest expense including depreciation was ($4,559,762). This is compared to a net income of $2,502,001 in the September calendar year to date 2018 number. The 2019 calendar year expenses were significantly increased because of the major overhaul being expensed. This happened because in prior years this was amortized over seven years but for this major overhaul it was expensed in maintenance due to a denial to amortize it over a seven year period.

# CY2020 Budget Review and Vote (Dave M.)

# D. MacDonnell presented to the Joint Owners the CY2020 budget. He began by saying that this budget is approximately 1.8 million less than the approved CY2019 budget. This decrease can be explained mostly due to the major overhaul that was budgeted on CY2019. The major overhaul cost about 2.3 million dollars. The CY2020 budget was kept level funded from the previous year excluding the major overhaul. There is a 6.1 percent increase, or a $900,000 increase in the fuel expense. More woodchips were budgeted due to an increase in current REC prices in anticipation of running more and using more wood. The budget is based on a capacity factor of 60.8 percent. In 2019, the capacity factor to date is 49.8 percent. In the capital portion of the budget, the turbine economizer replacement will cost approximately 1.4 million dollars. This is needed to help with the economizer leaks the plant has been seeing more frequently. Another item in the capital budget is the IT forward project which covers new software and system upgrades for the department and McNeil. D. Springer mentioned that the IT forward project has had money budgeted in the past and this has been used for the RFP process and consulting.

# D. MacDonnell then asked if there were any questions. D. Smith, GMP, asked about the line item in the expense budget in 921 under administrative fee. Y. Liu, BED, said she thinks this is part of the City of Burlington fees to manage insurances and other costs. Y. Liu said she would find out the exact breakdown for this line item and send the information to the Joint Owners as a follow up to this inquiry. D. Springer, BED, made a motion to approve the 2020 calendar year budget. The motion was seconded by K. Nolan, VPPSA, and approved by all Joint Owners present.

# BED – G.M. Update (Darren S.)

# D. Springer, BED, began by sending condolences to family, friends and co-workers of James Reardon who passed away suddenly on November 25, 2019. He was the Director of Finance at Burlington Electric since July of 2016. He will be missed. The finance team has stepped up and the logistical issues are being looked into for the transition period.

# D. Springer gave an update on District Energy. Burlington Electric has taken a step back on the Corix process and has explored a revised opportunity partnering with VGS and Evergreen who is currently a contractor with VGS in Middlebury on a project. The three entities involved have been talking with UVM Medical Center trying to work out the details on a steam based plan versus a hot water connection to the hospital. There was a recent call with Evergreen where there was an initial set of feedback from the updated modeling that had encouraging numbers from a price per MMBTU standpoint. Once refined, there will be another conversation with the hope that if the numbers remain in the positive territory, this may be a viable scenario and it will put Burlington Electric in the position to move forward to the next phase, the engineering phase. This phase would last about four months to map out the engineering, look at construction pricing to map out the full design of the system, obtain permitting and to get a final price to the potential customers. They would then be asked to sign a letter of intent to move the project forward. Still to be determined is the financing structure that would have to be discussed with the Joint Owners, the Electric Commission, the City Council and the Board of Finance. The forward motion of the process is reasonably optimistic in the scope of the project and seems to work better with UVM Medical Center because of the new design and logistical benefits, the lower price and the fact that the energy providers VGS and Burlington Electric are involved together as opposed to dealing with an outside entity. D. Smith, GMP, asked about the leadership of the entities involved being on board with the project. It was expressed that there has been constructive engagement from the two vice presidents and facilities staff.

# D. Springer, BED, also mentioned that he is seeing a continued interest in biomass sustainability. There have been recent presentations happening about the Net Zero roadmap at different venues. There is still some discussion about using biomass versus fossil fuels, coal or natural gas. B Lesnikoski, BED has created a sheet with the facts on the sustainability of the harvesting, the local nature of harvesting and the difference between what we do at McNeil versus what is being done in other areas of the country where the is not a clear sustainability standard like there is in Vermont. These facts should be shared with the general public.

# Plant Status, Operating/Maintenance Concerns (Dave M.)

# D. MacDonnell, BED, said that economizer is the major concern right now for the McNeil plant. This is planned to get replaced in April of 2020 and should make the economizer issues obsolete. This project will take about 15 days to complete. Once this is done, the plant should be in good shape in the future. Also, the insurance issue is a pressing concern to get insurance coverage for the plant. There is a meeting later this week with the insurance provider to go through McNeil and hear any suggestions we may have to address so they will reinsure the plant. One item they have brought up is fire protection on the conveyor belts and McNeil is currently looking into this as an option. M. Kasti, BED, brought up that he has asked Dave for a five year maintenance plan for the plant and what replacement equipment cost and delivery time would be.

# Other Business

# J. Gibbons, BED, brought up that the 2020 Connecticut REC prices are at $44.00. This is a significant increase from the past months. As part of Burlington Electric’s integrated resource plan, James group was asked to do an economic study of the McNeil Plant. Burlington Electric staff is not in the position to do this study and J. Gibbons, BED, believes it would be beneficial to have an independent entity do this study. It was suggested to hire Eric Kingsley who is a very well respected Bio-mass expert in the United States and does this work for plants across the country. His company, Innovative Natural Resource Solutions, is well respected. James believes this would be useful to all the Joint Owners and would like to share the costs which would be a total of around $10,000. With the questions being asked about Bio-mass and sustainability, this document, done by an independent entity, could be a helpful tool in answering question asked to any of the Joint Owners. This study would be done in the next month. J. Gibbons, BED, said the study would give the Joint Owners some valuable information. D. Smith, GMP, said he supports this study.

# K. Nolan, VPPSA, agreed.

# Schedule for next Meeting

The next Joint Owner meeting is scheduled for March 17, 2020 at noon at the McNeil farmhouse.

# Meeting Adjourned

D. Springer, BED, made a motion to adjourn the meeting at 1:35 pm; the motion was seconded by K. Nolan, BED, approved by all Joint Owners present.