MINUTES OF REGULAR MEETING
BOARD OF ELECTRIC COMMISSIONERS

Wednesday, April 09, 2014 – 5:30 p.m.

The regular meeting of the Board of Electric Commissioners was convened at 5:42 p.m. on Wednesday, April 09, 2014, at the Burlington Electric Department at 585 Pine Street, Burlington, Vermont.

Commissioners Spencer Newman, Jean O'Sullivan, and Mark Stephenson were present.

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

Other staff members present included Laura Babcock, clerk.

Channel 17 was present to tape this meeting.

Commissioner Newman called the meeting to order at 5:42 p.m.

1. Agenda

Commissioner Newman added an item, 8.5, Vote on General Obligation Bond.

Commissioner O'Sullivan asked to postpone the Lighting Committee Update due to Commissioner Herendeen's absence.

The motion was approved by all commissioners present.

2. Minutes of the February 12, 2014 meeting:

Commissioner Stephenson moved to accept the minutes for the February 12, 2014 meeting. The motion was seconded by Commissioner O'Sullivan and approved by all Commissioners present.

3. Public Forum

Gregory Roy was present from the public.

3.5 Commissioners' Corner

Commissioner Newman gave an update on the Mayor's search for a new general manager of BED. He noted that candidates are putting their names in and that applications were coming from both in and out of state. He anticipates that the committee will have their first meeting next week and that finalists will meet the mayor in mid-May. The committee includes BEC commissioners Newman and Stephenson. Karen Paul, Chris Dutton, Susan Leonard, and Mike Kanarick are a few of the other committee members.

4. Lighting Committee Update (Discussion and Vote)

Postponed until May.

5. General Manager Update (Discussion)

No updates to report.

6. February 2014 Financial Update (Discussion)

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

This included a brief discussion of the $233,000 Net Loss for the month and $3,713,000 Net Income year-to-date. It also included discussion of the Debt Coverage of 2.41 for the twelve months ended February 2014, and Cash and Construction Fund balances as of March 31, 2014. Mr. Santerre then provided a more detailed review of the individual line items.

Sales to Customers were up $803,000 (2.6%) for the year and were up $266,000 (7%) for the month. Other Revenues (primarily DSM/State EEU) were below budget by $48,000 (1.4%) 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.

There was no REC revenue reported in February and power supply revenue was up $2.2 million year-to-date. The McNeil REC revenue was up $2.1 million ($5.8 million as compared to $3.7 million budgeted) and wind REC revenue was up $200,000 ($2.3 million as compared to $2.1 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 3.6% ($782,000). Although McNeil fuel costs were up $1.3 million (due to production being up 24% for the year), this was offset by lower purchased power costs of $2.1 million. Also, woodchip prices were on average 1.7% lower than budget, which helped lower overall power supply costs.

Operating Expense year-to-date was close to budget. We were within 5.7% of budget ($584,000 over on a $10,284,000 budget). The primary reason for the difference is that we have expensed $439,000 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 $151,600. (This means more charged to expense.) If you adjusted for these two items we would be exactly in line with budget.

Taxes were in line with budget, with minimal differences.

Depreciation & Gain/Loss on Plant was over budget by $360,000 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 $170,000 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 2.41. This is well above the 1.25 required, and is a 12 month calculation.

Mr. Santerre then discussed Capital Spending. In total, through March, we had expended 74% ($4,967,000) of the $6,732,000 budgeted for fiscal year 2014. Production (McNeil Plant) capital was less than budget ($159,000 of $383,000). Although the four new rail cars were purchased, the ash dump truck, plant vehicles and certain other equipment was deferred. As 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 ($2,592,000 spent as compared to the budget of $4,195,000), primarily due to the timing on several projects, including Cherry Street ($480,000), and the GIS Outage Management System ($724,000). Also, there were several projects budgeted for FY14 that were completed in late FY13. Finally, General plant (585 Pine Street capital) was below budget ($401,000 of $889,000 budgeted), largely due to the timing of various buildings & grounds projects. This includes asphalt replacement and other items.

On the cash side, we closed the month of March with a $3,036,000 balance in the Operating Account (the budget was a balance of $2,492,000). The balance would have been around $4,800,000 if the $1,815,000 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) remains at $4,903,000. 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 was at $395,000. This account will be depleted when we get final billings on the Highgate Converter Station project.

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. It should be noted that the graphs do have one significant change this month. Mr. Santerre is now preparing both current month and three year historical indicators for each of the graphs. 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 1.38 and 1.26 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 70 day position and the three year average was 49 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 52%. 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.

7. A-133 Single Audit Report (Discussion)

Mr. Santerre presented a brief overview of the recently completed "A-133 Single Audit Report For the Year Ended June 30, 2013", as completed by the audit firm of KPMG, LLP.

Mr. Santerre began by giving a brief history of the audit, as required by the Federal Office of Management and Budget. The requirement for the audit was through the Single Audit act of 1984 and is required of local and state governments and not-for-profit entities. It is completed in any given year when the amount of grant proceeds from the federal government exceeds $500,000 (current threshold), and is due nine months after

the fiscal year end (March 31 for BED). Once completed it is submitted to an electronic "Audit Clearinghouse" of the Federal Government

The purpose of the audit is to be sure that BED, in receiving the proceeds, has complied with all relevant Federal and State Laws and Regulations. The audit will examine financial records, award receipts and expenditures, management of operations, and internal controls.

Once the audit is completed the auditors will prepare their report, which will include an Opinion Letter, a "Schedule of Expenditures", an assessment of compliance with the grant requirements, and an assessment of internal controls. It will then conclude with a "Summary of Findings and Questioned Costs".

For the fiscal year ended June 30, 2013 audit, BED had an "unqualified" opinion and received strong marks on its internal control environment and meeting program requirements. There were no findings or questioned costs. In addition, there were not any material weaknesses or significant deficiencies with the internal controls over both (1) financial reporting, and (2) federal awards.

To qualify for the "low-risk auditee" designation, you must have completed two consecutive, clean, audits, which we have done the past three years. Therefore, we continue to have that designation. Practically speaking, the low risk auditee designation helps reduce audit time if you have more than one project under grant.

This concluded the presentation and discussion.

8. Fiscal Year 2015 Budget Presentation (Discussion)

Daryl Santerre, BED's Chief Financial Officer presented the "Fiscal Year 2015 Budget" to the Commission with an overhead slide presentation.

Mr. Santerre started by discussing the "Key Assumptions" used in the budget development, by section (Revenues, Expenses, Interest, Taxes, Capital, and Cash).

For Sales to Customers we continue to assume normal weather and the continued positive impacts of energy efficiency and demand side management. In fact, we assumed slightly less MWHs sold this year as compared to last year's budget and less than the actual MWHs sold ten years ago (FY 2004). As for rates, similar to the past few years, we did not "model" a rate adjustment. We also did not model any impact from future rate design work. The assumption is that any rate design changes would be revenue "neutral".

For Other Operating Revenues, we assumed $5.8 million of renewable energy credits (RECs) at the McNeil Station and $3.5 million of wind energy credits. Also, with the Winooski One hydro project purchased assumed for the start of FY15, we assumed $355,000 of RECs associated with that facility. The REC pricing we assumed some significant upward change from last year ($43 vs $36 on McNeil and $55 vs. $40 on Wind) as market conditions continue to run high.

For Other Income we assumed an increase in Velco dividends due to the increased investment in VT Transco

from our December 2013 investment of $1.8 million and the planned investment of $1.8 million in December of 2014. We also assumed grant income of $1.25 million the City Waterfront North Access Improvement project. Finally, we assumed the New England Power Company contract payment of $1.9 million annually would end in July with one final monthly payment of $162,000. That would be all for the fiscal year.

On the Expense side, we assumed a power supply budget of $32.4 million, essentially the same as last year's budget. However, net power supply costs (after REC revenues) of $22.4 million were down by $1.8 million (7.4%) decrease from last year's budget of $24.2 million. Transmission fees, at $6.2 million, were for the first time in many years relatively level with last year's budget. For Other Operating costs we assumed increases based upon the IBEW contract (if applicable), City Hall projections for benefits, and other sources. Since fiscal year 2009, we are averaging a 4.8% (before inflation is factored in) annual increase in "controllable costs". If we remove the new costs of the Winooski One project, we would be at 3.9% (before inflation factor). This was accomplished during a period of major continued increases in healthcare and pension costs and major increases in capital improvements to the distribution system. It is also for cost increases, and for additional staff and expense for the post ARRA hardware and software infrastructure.

Also on the expense side was new expense associated with the purchase of the Winooski One hydro plant. The added expenses are: $400,000 of property taxes to the City of Winooski, depreciation of $640,000 (based on purchase price over 25 years of remaining useful life assumed), and $936,000 of operating and maintenance costs (One full time employee is assumed.)

Depreciation and amortization is assumed to drop about $1.8 million as a result of the sinking fund payments on the McNeil bonds being fully paid off. Interest expense is dropping significantly even with adding the new $3 million annual GOB and the new $8 million revenue bond for Winooski One. That is due to a large portion of revenue bonds being completely paid off by June 30 of this year. These are the bonds associated with the purchase of the McNeil plant. The net effect is that interest expense is dropping from a total of $7.6 million in last year's budget to $3.5 million this year.

On the Capital side we assumed a total capital budget of $11.5 million. This includes: Investment in Velco equity of $1.8 million, the airport solar project of $1.6 million, gas turbine control upgrade of $1 million, Waterfront North Access project of $1.6 million and $3.4 million of other distribution system related projects. It does not include the $16 million for the Winooski One hydro project purchase. This is assumed to be purchased by June 30, 2014. The City's Waterfront North Access project will be largely funded by contribution from the City of $1.25 million. We will also use the $3 million of annual general obligation bond to fund a portion of this capital need.

On the Financing side, we assumed the annual $3 million annual general obligation bond to be issued early in the new fiscal year. Although we have a $10.3 million Net Capital Budget we did not budget any new bonds above the $3 million annual amount or the $8 million we assumed to be issued prior to the new fiscal year for the Winooski One purchase. This is in large part due to amount of REC income (close to $10 million assumed), a one-time, final payment of $4.3 million from our Newport Electric/McNeil contract, and our Debt Service Reserve monies becoming available July 1, 2014.

We did not assume any new advances against our $5 million Line-of-Credit for this fiscal year and for our

opening balance of Cash, we assumed $3.9 million.

Mr. Santerre then walked through the detailed schedules of the budget, followed by the summary schedules of Net Income, Revenue Bond Debt Coverage and Cash Flows. He also reviewed two of the three Moody's Bond Rating indicators (Adjusted (or Total) Debt Service Coverage and Days Cash On Hand).

For the Income Statement, we are projecting Net Income of $4.0 million. This is largely due to the $10 million of REC revenue, power supply costs being lower, and interest and depreciation expense being significantly lower as a result of the McNeil bonds being paid off.

For Revenue Bond Debt Coverage, we are projecting 6.51 for fiscal year 2015. The reason for the number being so high is that the revenue bonds associated with the McNeil plant will now be paid off and thus removed from the calculation. This is obviously well above the 1.25 required.

For our Cash Balances, based on all of the above assumptions, our end of year position would be a positive balance of $5.5 million. The monthly balances would be above $4 million the entire year.

The first of the two new graphs (Moody's Financial Indicators) we reviewed was "Adjusted Debt Service Coverage Ratio". This looks at our ability to meet cash obligations, <u>including</u> 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 (BED's current rating) requires a minimum of 1.10. For the end of fiscal year 2015 budget we would have a 1.85 rating. This would be the first time ever we would be above the 1.50 required for the Moody's "A" rated bonds.

The second new graph (indicator) we reviewed was for "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 (BED's current rating) requires a minimum of 30 days. The budget year-end cash position would give us a calculation of 76.64. This shows us in the middle of the Baa and the A rating. It was pointed out to the Commission that this number includes and thus assumes our $5 million Line-of-Credit is available for cash purposes. Moody's requires certain language in the LOC agreement to have this assumed. We are in the process of getting that verification. If we are not allowed to assume the LOC for this calculation the number would change to 42.14 days cash on hand for the FY15 budget.

This Fiscal Year 2015 Budget will be up for vote by the Electric Commission at the regularly scheduled May meeting. It will also be reviewed and approved by the Board of Finance at a future meeting.

8.5. General Obligation Bond (Discussion and Vote)

Commissioner O'Sullivan moved to make the recommendation for the $3 million General Obligation Bond. The motion was seconded by Commissioner Stephenson and approved by all commissioners present.

9. ISO Risk Management Certification (Discussion and Vote)

Ken Nolan was present to brief the Commission on the ISO New England requirements related to risk assessment. Each year BED is required to certify that it has identified all ISO related market risks it is subject to by participating in the electricity markets operated by ISO New England. This certification must be approved by the Commission and signed by an officer of the company.

Mr. Nolan explained that in 2012 BED was able to certify compliance with this requirement by entering a contract with La Capra Associates to review BED's exposure to the New England power markets. That work was completed in 2012 and a matrix of risks was prepared which now requires Commission approval to allow BED to certify compliance for 2014.

Mr. Nolan presented the major risk categories to the Commission and noted that the full matrix had been provided to Commissioners at their seats. Mr. Nolan then reminded the Commission that this requirement was added after several ISO New England market participants had declared bankruptcy leaving the ISO with unpaid balances that needed to be recovered from other market participants. In response to these bankruptcies, the ISO strengthened its collateral requirements and put several certification procedures in place. Mr. Nolan noted that BED already had many risk policies in place through its normal course of business such as city Charter restrictions, various city council Resolutions, the Commission/GM MOU, various Commission Resolutions, and policies delegating certain duties from the GM to various staff. The matrix does not affect any of those policies but merely meets the ISO requirement and helps staff identify if there were any gaps in authority.

Mr. Nolan requested that the commission enable staff to sign this document annually without review from the BEC. The commission ultimately decided that they would empower the general manager to sign this form on their behalf, in order to alleviate deadline concerns, but requested that a review be presented to them at the March BEC meeting each year.

Commissioner O'Sullivan moved to authorize the General Manager to sign the ISO Minimum Criteria for Market Participation certification on behalf of BED each year while providing the BEC with an informational presentation on the topic at their March meeting. The motion was seconded by Commissioner Stephenson and approved by all commissioners present.

There being no further business to discuss, Commissioners O'Sullivan and Stephenson moved to adjourn at 7:06 p.m. which was approved by all Commissioners present.

Attest:

_____

Laura Babcock, Clerk