MINUTES OF REGULAR MEETING
BOARD OF ELECTRIC COMMISSIONERS

Wednesday, June 11, 2014 – 5:30 p.m.

The regular meeting of the Board of Electric Commissioners was convened at 5:40 p.m. on Wednesday, June 11, 2014, at the Burlington Electric Department at 585 Pine Street, Burlington, Vermont.

Commissioners Spencer Newman, Scott Moody, Jean O'Sullivan, and Bob Herendeen were present.

Staff members present included Barbara Grimes, Daryl Santerre, Ken Nolan, John Irving, Mary Sullivan, 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 5:40 p.m.

1. Agenda

There were no revisions to the agenda.

2. Minutes of the May 14, 2014 meeting:

Commissioner Herendeen asked that the section on the lighting policy be reviewed and that the word "standard" be replaced, when appropriate, with the word "recommendation."

He also asked that it be made clear that the intern from the Vermont Law School would not cost the department anything.

Commissioner Moody moved to accept the minutes for the May 14, 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.

Mr. Roy, on the behalf of the citizens of Burlington, wanted to thank General Manager Barb Grimes for all her hard work and dedication. He mentioned that she always attends NPA meetings, on her own time, to keep the city informed.

3.5 Commissioners' Corner

Commissioner O'Sullivan stated that while she had no influence on Mr. Roy's speech, she wanted to echo his sentiments. She said that Ms. Grimes brilliantly served for many years and has had an amazing run.

Commissioner Newman said that he too wanted to echo the words of Mr. Roy and Commissioner O'Sullivan. He said he looked at the progression of the department over the last 15 years and that she is leaving a legacy of a great team, stable rates, and a good financial situation. The commission thanked Ms. Grimes by presenting her with a gift certificate.

Commissioner Newman also noted that it was Commissioner O'Sullivan's last meeting and that she has had a big impact on the commission. Commissioner O'Sullivan said that she has really enjoyed her terms and is stepping down to give someone else a turn to serve with this great department.

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

Ms. Grimes stated that she wanted to thank Commissioner O'Sullivan for hard work and presented her with a gift, a replica BED truck with a plaque.

Ms Grimes also noted that the Dispatch office has been moved to the back building and now has an electronic display board. She invited the commission to arrive early for the next meeting to tour this new space. She said that the old Dispatch office will now be the new "fit pit" which will be a much more inviting space and will encourage employees to use it year round.

Ms. Grimes also mentioned the Velco Board meeting she attended. The VELCO Board had a lengthy discussion of a proposed natural gas pipeline into New England as well as 3,500 MGW of transmission proposed to build through VT. The Board was uncomfortable at the pace of the discussions, the position the Governor might be taking and that the costs were not really understood. The VELCO Board is having a special meeting to discuss the issues on July 3, 2014.

5. April 2014 Financial Update (Discussion)

Prior to the regular monthly financial review, Mr. Santerre updated the Commission on the Fiscal Year 2015 Budget process.

In the time since the Commission approval of the Budget at their May 2014 meeting, and prior to the City Council approval of the overall City Budget, there were a few changes.

In completing our due diligence on the FY15 Budget, and specifically researching the NEPCO termination payment (the $4.3 million balloon payment this July 2014 as part of the 2003 buyback agreement of McNeil power), we discovered that there was an "amended" agreement in 2005, calling for an early, discounted payment from NEPCO, which we did receive back in 2005. The net effect is that we will need to keep the

revenue bond for Winooski One at the $12 million initial budget amount (and what voters agreed to), rather than lowering it to the $8 million we were hoping for.

The effects on the budget were minimized because of that bond latitude and the interest rates we are seeing (about 3.8% versus the budget of 5.35%). Also, on the income statement we were assuming the recording of the income over 10 years.

In addition, at a meeting with the Mayor and Chief Administrative Officer we were also asked to review our cash assumptions and see what we could do to further improve our liquidity position (specifically, Days Cash On Hand) with Moody's bond ratings. Therefore, in reviewing our cash assumptions we updated our end of year cash balance projection, increased our Debt Service Reserve for expected additional income earned, reimbursed the Operating Fund for Winooski One legal & arbitration costs ($800,000) to date, lowered the interest rate on the Winooski One revenue bond to 3.8% and made several other changes in assumption on cash measures alone.

In doing so, we were able to improve our overall cash position from the one presented and approved earlier by the Commission. The new cash balances would range from $5.3 million to $7.9 million, with an average of $6.4 million and our Days Cash on Hand would be between 40-58 with an average of 47 and a year end of 55.

After that brief discussion, Mr. Santerre presented a brief review of the April 2014 year-to-date financial results.

This included a brief discussion of the $606,000 Net Income for the month (we had budgeted $745,000) and $3,810,000 Net Income year-to-date. It also included discussion of the Debt Coverage of 2.42 for the twelve months ended April 2014, and Cash and Construction Fund balances as of May 31, 2014. Mr. Santerre then provided a more detailed review of the individual line items.

Sales to Customers were up $723,000 (1.8%) for the year, despite being down from budget for the month of April. Other Revenues (primarily DSM/State EEU) were below budget by $290,000 (6.7%) 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 $2.47 million year-to-date. McNeil REC revenue was up $2.4 million ($7.2 million as compared to $4.9 million budgeted) and wind REC revenue was up $200,000 ($3.0 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 2.7% ($730,000). Although McNeil fuel costs were up $1.7 million (due to production being up 24% for the year), this was offset by lower purchased power costs of $2.4 million. Also, woodchip prices were on average 0.5% lower than budget, which helped lower overall power supply costs.

Operating Expense year-to-date was close to budget. We were within 3.4% of budget ($440,000 over on a $12,937,000 budget). The primary reason for the difference is that we have expensed $422,000 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 $230,000. (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 $367,000 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 $284,000 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 2.42. This is almost double the 1.25 required, and is a 12 month calculation.

Mr. Santerre then discussed Capital Spending. In total, through May, we had expended 96% ($6,449,000) of the $6,732,000 budgeted for fiscal year 2014. Production (McNeil Plant) capital was less than budget ($511,000 of $782,000). Although the four new rail cars were purchased, the ash dump truck 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 ($3,445,000 spent as compared to the budget of $4,844,000), primarily due to the timing on several projects, including Cherry Street ($480,000), and the GIS Outage Management System ($696,000). Also, there were several projects budgeted for FY14 that were completed in late FY13. Finally, General plant (585 Pine Street capital) was below budget ($678,000 of $894,000 budgeted), largely due to the timing of asphalt repair work ($60,000) and replacement of two utility operations trucks.

On the cash side, we closed the month of May with a $3,470,900 balance in the Operating Account (the budget was a balance of $2,857,000). The balance would have been around $5.3 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) 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, including legal and arbitration costs. The Construction Fund for the 2012 Revenue Bond was at $375,000. This account will be depleted in June when we get final billings on the Highgate Converter Station project. Lastly, we have a $743,800 balance in the $3 million GOB for FY14. This should be expended in June, by the end of the fiscal year.

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 1.39 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 74 day position and the three year average was 51 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 43% 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.

This concluded the presentation and discussion.

6. Electric Vehicle Charging Rates (Discussion)

Mr. Nolan was present to discuss the different allowed rate components for chargepoint stations including a connect fee, or a flat fee assessed for initiating a session, time based fee, or per hour of station use, and a per KWH consumed fee. Electric Vehicles can draw different levels of power, even from the same level 2 stations. The charge times needed can vary substantially as well. Mr. Nolan noted that a per KWH component is needed for equity and that how to recover charge station capital costs is a key decision. The DPS felt the rates should be easy to understand and asked staff to consider several factors including having different rates at different stations

to gauge response, removing interruption provision, charging solely on KWH, implications of a >4 hour penalty where hotel parking might be involved, using case evaluation, and future coordination with DPW parking meters. Mr. Nolan then presented two draft rates. The first would charge a connection fee regardless of the duration of the charge in order to recover capital costs. A level 2 station fee would be $1.86 and a level 3 station would be $4.47. In addition, there would be a per KWH change for energy and system costs, but excluding all capacity costs of $0.09934. This draft rate would also include a penalty for use of the charger over 4 hours of $1 per hour or part of the hour. Charging would not be available during DR events. The second rate draft would not have an interruption provision, would feature a per KWH fee only of $0.4300 per KWH for level 2 and $0.6698 per KWH for level 3. There would also be a penalty per hour over 4 hours except in hotel parking structures. Mr. Nolan said that the next steps are to discuss the different options with the DPS including the impact of including capacity costs and the impact of rolling capital costs into KWH rate. Staff will also review use cases in depth. Finally, staff will bring a rate proposal to the BEC in July.

This concluded the presentation.

7. Highgate Joint Owners Agreement Amendment 7 (Discussion and Vote)

BED is a 7.7% owner of the Highgate Converter Station, which connects the VELCO and Hydro-Quebec transmission systems in Highgate, Vermont. Other owners include CVPS, GMP, VPPSA, and VEC (known collectively as the Highgate Joint Owners or HJO). The HJO entered an Operating and Management Agreement with VELCO when the facility was constructed. As the facility "Manager" VELCO is responsible for all maintenance and operation of the facility.

The Federal Energy Regulatory Commission (FERC) and National Electric Reliability Corporation (NERC) recently changed the definition of "Bulk Electric System" to include all 115kV infrastructure components. This means that while the Highgate converter has historically not been part of the NERC reliability audits utilities have had to undergo, it must now be included in the reliability reviews. This change would also require each joint owner to register as a Transmission Owner and Transmission Provider under NERC guidelines, which would bring significantly added reporting requirements to every owner.

Another alternative is that the owners assign their NERC obligations through a contract to a third party. The owners would remain obligated for any costs, but would not have to register or undertake the added reporting. With this option available, VELCO has proposed that they take on the NERC obligations for the converter station as part of their existing management duties. VELCO is already registered with NERC as a Transmission Owner and Transmission Provider, and has a dedicated reliability staff to deal with NERC issues. To transfer this obligation the Highgate joint owners need to execute the attached Amendment #7.

The requested Motion would be to recommend Amendment #7 to the Highgate Operating and Management Agreement to the city council for approval.

Commissioner Herendeen moved to approve Highgate Joint Owners Agreement Amendment 7 meeting. The motion was seconded by Commissioner O'Sullivan and approved by all Commissioners present.

Executive Session

1. REC issue (Discussion)

Commissioner Herendeen moved that the commission go into executive session to discuss contract negotiations that premature disclosure would put the department at a distinct disadvantage at 6:58 p.m. The motion was seconded by Commissioner O'Sullivan and approved by all Commissioners present.

Commissioner O'Sullivan moved to exit Executive Session at 7:23 p.m. The motion was seconded by Commissioner Moody and approved by all Commissioners present.

There being no further business to discuss, Commissioners Moody and O'Sullivan moved to adjourn at 7:24 p.m. which was approved by all Commissioners present.

Attest:

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Laura Babcock, Clerk