

MINUTES OF REGULAR MEETING BURLINGTON ELECTRIC COMMISSION

Wednesday, October 14, 2015 – 5:30 p.m.

The regular meeting of the Burlington Electric Commission was convened at 5:30 p.m. on Wednesday, October 14, 2015 at the Burlington Electric Department at 585 Pine Street, Burlington, Vermont.

Commissioners Spencer Newman, Scott Moody, Gabrielle Stebbins, Bob Herendeen and Tim Perrin were present.

Staff members present included Neale Lunderville, Paul Alexander, Meredith Birkett, Mike Flora, Denis Gravelin, Munir Kasti, Betsy Lesnikoski, David MacDonnell, Ken Nolan and Daryl Santerre

Other staff members present included Laurie Lemieux, Board Clerk.

Channel 17 was present to tape this meeting.

1. Agenda

Commissioner Newman revised the Agenda to move the KPMG Presentation to item 3.5 immediately following the Public Forum.

2. Minutes of the September 9, 2015 meeting

Commissioner Moody moved to approve the minutes of the September 9, 2015 meeting; the motion was seconded by Commissioner Perrin and approved by all Commissioners present.

3. Public Forum

No one from the public was present.

3.5 KPMG Audit Presentation

Mr. Santerre was present for the audit report and discussion. Also present and presenting were Renee Bourget-Place, the Engagement Partner for BED and Christopher Metzler, Audit Manager for the BED audit.

Ms. Bourget-Place and Mr. Metzler completed their “Report to The Board of Electric Commissioners”. It included: (1) a review of the audit objectives; (2) an overview of the FY 2013 audit results, (3) areas of emphasis during the audit, and (4) a brief discussion of BED’s

control environment. They also discussed the required communications, under “Statements on Auditing Standards” (SAS) No. 114, which include the “Management (Internal Control) Letter”.

KMPG then reported that the audit opinion would be an unmodified (formerly known as an unqualified) opinion.

They stated that (1) there were no matters involving the internal control structure that they considered to have material weaknesses, (2) they had no disagreements with management and (3) they encountered no difficulties in performing the audit; (4) they confirmed their independence with the respect to BED under all relevant professional and regulatory standards.

KPMG then discussed two areas of concern. They made clear that these were not internal control issues and also were not management letter comments requiring formal responses from management. Rather, these were “observations” they noted while completing the audit. The first one involved the spare parts inventory at the McNeil station and the second one involved the use of real time, smart meter data in calculating our monthly estimate of unbilled revenue. Although the inventory adjustments were not material and therefore were not booked, management did acknowledge a need to further enhance the inventory control procedures at McNeil. Management also acknowledged the need for automation of unbilled revenue and stated that that project was already in process.

Ms. Bourget-Place then spent a few minutes discussing GASB 68 “Accounting and Financial Reporting for Pension”. She stated that although the numbers BED booked were essentially final, they were still working with the City and their auditors to complete the full disclosure (narrative) required. She went on to say that the initial liability the Department recorded (for fiscal year 2015) was determined using actuarial data as of June 30, 2014 (one year back allowed by GASB and chosen by most municipalities). In choosing June 30, 2014, she explained, the Department needed to reverse the expense recorded for fiscal year 2015 and charge that to a “deferred outflow” account. This account will now be adjusted annually as new year-end liability data becomes available from the City’s pension fund actuary.

Ms. Bourget-Place then spent a few minutes discussing GASB “Emerging Issues”. She shared that there will be two new GASB pronouncements coming in fiscal year 2016. The first one, “Fair Value Measurements”, will have little impact on the Department. Our investments tend to be conservative and interest based. This GASB is dealing more with investments in the marketplace. The second one “Leases” will require all leases (both capital and operating) to be recorded on the balance sheet. In the past, an operating lease, by definition, would be recorded as an expense on the income statement. Like the earlier GASB, this one will have little impact on BED as we have very few operating leases.

KPMG then closed by stating that, although the financial reports are stamped as “drafts” , neither the Department or KPMG expect any material change from what was presented to when the reports are printed and distributed in final form within the next few weeks. If, however, there were significant or material changes, KPMG would report back to the Commission.

Commissioner Moody moved to find that premature general public knowledge of KPMG's evaluation of BED's management with the Commission would clearly place the Burlington Electric Department at a substantial disadvantage per Title 1, Section 313, Subsections (a)(1) and (a)(3) of the Vermont Statutes, because such information may risk contractual relationships with BED counter-parties in the regular sale and purchase of energy and is considered an evaluation of BED personnel. The motion was seconded by Commissioner Herendeen and approved by all Commissioners present.

Commissioner Herendeen moved that the Commission enter into Executive Session to discuss the KPMG information with the Commission under the provisions of Title 1, Section 313, subsection (a)(1)(A) of the Vermont Statutes. This motion was seconded by Commissioner Moody and approved by all Commissioners present.

The Commission moved into Executive Session at 5:55 pm

Commissioner Perrin made a motion to exist Executive Session; this motion was seconded by Commissioner Herendeen and approved by all Commissioners present.

Commission exited Executive Session at 6:05 p.m.

4. Commissioner's Corner

Commissioner Stebbins stated that it was great to see BED represented at Art Hop and feels that there has been a remarkable difference in BED's marketing and community outreach since Mike Kanarick has been on board. Mr. Lunderville stated that BED was very excited to be part of Art Hop and to have the opportunity to connect with customers. Over the course of two days the Department distributed approximately 1500 BED plastic hardhats, which is a great indication of how many customers BED staff had the opportunity to speak with. Staff also took advantage of this opportunity to ask how BED customers felt the Department was doing and also received some names of customers who would like information on our energy efficiency programs.

Commissioner Moody stated that it was also nice to see former Commissioner Mark Stephenson and Mike Kanarick at the elementary schools promoting energy efficiency and to see all the yellow hardhats on the students. Mr. Lunderville stated that there was an article in the Burlington Free Press about BED educating young students about efficiency. It has been great that Mike took on the Energy Efficiency calendar project and along with media involvement, shows that BED is working closely with the community.

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

Mr. Lunderville informed the Commission that the Department will be submitting the final reorganization to the Board of Finance and the City Council in the upcoming week. This puts the Department two weeks off the schedule presented to the Commission in August. The

Department has changed 54 job descriptions, covering 67 employees, more than half of the employees will see some change to their job descriptions, most of the changes are title changes or reporting changes which have to go to the City Council under the Burlington Ordinance. There are some job descriptions that require more substantial changes and some are that require very substantial changes. BED plans to be in front of the Board of Finance on Monday, October 19th and the City Council on Monday, October 28th, and by the end of the month the major part of the reorganization will be complete with a few pieces that will stretch into November, particularly at McNeil.

At the last meeting Mr. Lunderville informed the Commission that the last day for most employees who signed up for the voluntary buyout was September 30th. Before September 30th there was two different retirement ceremonies, one was a BBQ at McNeil and one was a luncheon at Pine Street. Both events highlighted how many great employees the department has, stretched out over decades. Mr. Lunderville stated that a lot of planning went into this transition and is very pleased how the remaining workforce at BED has picked up where the veterans have left off.

Mr. Lunderville stated that on October 3rd the City lost power on Church Street and a couple of streets off Church Street. The merchants stated that this could not have happened at a worse time since it was Parents Weekend in Burlington. A switch failed and knocked out the power, it took about 3 hours to isolate the problem and back-feed to those businesses, a few businesses did not come back on until 5pm. On Monday, October 5th Mr. Lunderville and Mr. Kanarick went to approximately 15 businesses on Church Street and apologized. In nearly all cases the merchants were very gracious and stated that the power never goes out. Mr. Lunderville stated that the Department will continue to work hard to minimize the chance of outages and to keep reliability high and when outages do occur the crews work very hard to get the power back on as soon as possible.

Mr. Lunderville stated that the Department has launched a great partnership with UVM to run a solar RFP for all UVM buildings. To date 36 solar developers have expressed interest and there will be a pre-bid conference for interested developers in the next couple weeks. The Department will be receiving developer bids in November.

Mr. Lunderville informed the Commission that BED has commissioned the solar panels on the roof at 585 Pine Street.

There was a Passive House workshop held at Arts Riot at the end of September with approximately 100 people in attendance. Mr. Lunderville stated that Passive House design has a real value for the future especially around BED efficiency efforts.

Mr. Lunderville stated that Al Gore spoke at UVM and praised Burlington Electric as the first City in the country to go all renewable. Mr. Lunderville stated that it's great that the amazing work that BED does is getting national recognition.

Mr. Lunderville stated that 29 years ago on July 14, 1986 Daryl Santerre started at Burlington Electric Department. This year's audit finding could not be a better capstone to the work Mr. Santerre has done for the utility. We have been lucky to have Mr. Santerre and on behalf of all employees we want to formally thank him for all his hard work.

6. IRP Citizen Commission Recommendations

Commission Newman stated that there will be 2 pieces to this item, first being the members of the IRP Committee and the 2nd piece will be a presentation by Commissioner Herendeen.

This Committee will consist of 2 Commissioners, 2 members of the community along with a team from BED. Commissioner Newman stated that Commissioner Stebbins and Commissioner Perrin have volunteered to be on the IRP Committee. One of the citizen slots will be filled by Doug Goldsmith. Mr. Goldsmith is the former CFO of All Earth Renewables and has experience and great interest in the renewable field and the Commission is very excited to have Mr. Goldstein join the committee. The second citizen slot has yet to be filled and the Commission is still looking for someone to volunteer. Commissioner Newman stated that if anyone would like to volunteer to join the IRP Committee, please contact Commissioner Newman and the contact information can be found on the Burlington Electric Department website.

Commissioner Newman explained that this Committee is the Integrated Resource Plan Committee which has had an impact on the City of Burlington and Burlington Electric in the past. This plan helps BED think about where the power is going to come from in the next 20 years. Commissioner Newman explained that 10 years ago this same Committee came up with the idea to make Burlington 100% renewable and a few years ago this Committee pushed solar for the City, and stated that this is a very impactful Committee and citizen input is critical. This Committee meets once a month for 4-5 months and then takes a 2-3 month break and then meets again for another month or two and then presents the Committee's recommendations to the Electric Commission for their approval.

Commissioner Newman stated that at a previous Commission meeting it was decided that part of the IRP Committee's mission would be to have the REC issued addressed and Commissioner Herendeen volunteered to come up with a statement for the Commission to review and approve.

Commissioner Herendeen spoke on the definition of REC's, dependence on REC's, REC buying, selling and the question "*what would happen if REC's dry up*". The REC policy and the question of the REC market should be an important component to be discussed in the IRP Committee. Commissioners discussed a draft statement written by Commissioner Herendeen, who took the feedback and consult will with Commissioner Stebbins and run the revision by Mr. Lunderville and Mr. Nolan.

7. New England Central Railroad Contract

Mr. Lunderville introduced Ms. Lesnikoski from McNeil. Ms. Lesnikoski is McNeil's new Chief Forester who replaced Bill Kropelin and BED is very pleased to have Ms. Lesnikoski and Mr.

MacDonnell on the McNeil Team.

McNeil is required by the Vermont Public Service Board to receive 75% of wood fuel by rail and the New England Central Railroad (NERC) is the only company BED can contract with to provide this service. BED is asking approval of this contract with a 1.5% price increase for a one-year period October 1, 2015 to September 30, 2016.

Commissioner Herendeen made a motion to approve Amendment 14 to the New England Central Railroad contract; this motion was seconded by Commissioner Perrin and approved by all Commissioners present.

Chittenden Solid Waste District/McNeil Agreement

This agreement proposes a five-year agreement (January 1, 2016 through December 31, 2020). McNeil puts a Waste Wood Operator at Chittenden Solid Waste District (CSWD). This operator is on McNeil payroll but CSWD pays BED \$60,000 annually for this service. McNeil's cost for the service provided to CSWD is approximately \$53,000 per year and we believe the annual \$60,000 payment more than covers McNeil's costs over the five year period.

Commissioner Newman made a motion to approve the Chittenden Solid Waste District Agreement; this motion was seconded by Commissioner Herendeen and approved by all Commissioners present.

8. Paymentus Contract Amendment

BED has been using Paymentus for some time to process one-time payments of credit cards. Approximately 2 months ago Paymentus approached BED with a contract amendment proposal to drop the service fees from \$3.95 per transaction to \$2.50 for each credit card/debit card payment and \$1.50 for each eCheck payment if BED transitioned from having Paymentus charge the customer directly to having Paymentus bill BED once per month for all the transactions. One of the other Paymentus features would allow additional vendor accounts to be added, (i.e. the ability to pay water, sewer and property tax bills) along with setting payment dates. This contract amendment is needed to put the new fee structure in place and allow for the elimination of customer billing.

Commissioner Perrin made a motion to approve the Paymentus Contract Amendment and recommends approval by the City Council; this motion was seconded by Commissioner Herendeen and approved by all Commissioners present.

9. July/August FY2016 Financial Update

Mr. Santerre presented a brief review of August 2016 year-to-date financial results.

This included a brief discussion of the \$1,498,000 Net Income for the month and \$2,330,000 Net Income year-to-date. Mr. Santerre stated that the Net Income of \$1,498,000 for the month of

August (as compared to a budget of \$390,000) was essentially driven by REC revenue received in August, which was budgeted for July. He also discussed the Debt Coverage of 5.61 for the twelve months ended August 2016, and Cash and Construction Fund balances as of September 30, 2015. Mr. Santerre then provided a more detailed review of these results.

Sales to Customers were up \$101,000 (2%) for the month and \$168,000 (1.9%) for the year. The year-to-date variance of 1.9% was on sales of \$9,046,000. Other Revenue was below budget by \$147,000 on a year-to-date budget of \$551,000. Any variance in this revenue is driven by the timing of billings and customer requested work. Power supply revenue of \$2,392,000 was slightly (\$111,000) below budget as there was \$185,000 of Winooski One hydro and standard offer RECs which were not sold as budgeted but “banked” for future value and revenue recognition.

On the Expense side, power supply costs were down \$91,000 year-to-date. This is a 1.6% positive variance on the \$5,459,000 power supply expense budget. Operating Expense was down \$257,000 for the month and \$557,000 year-to-date. This was driven by a number of factors including: position vacancies in the process of being filled, IBEW negotiations in process for cost-of-living adjustments, outside service costs lower than projected, and the Winooski One overhaul outage being deferred. Taxes were up \$30,000 for the year as the budget was a preliminary estimate provided by the City and did not reflect final capital asset values from BED. Similarly, Depreciation was up \$124,000 year-to-date as the budget would not have reflected final fiscal year 2015 capital additions.

Other Income was down \$730,000 for the two months ended August largely due to the timing of billings/ contributions for a significant University of Vermont Medical Center project. This is a project of which they are contributing the majority of the costs, which we recognize as income. Interest expense for the month and year was in line with budget.

Mr. Santerre then discussed Capital Spending. In total, year to date ended September 30, capital spending was 9% (\$723,000) of the \$8,458,000 budget. McNeil/GT Production capital was below budget by \$280,000, as the front end loader (\$165,000) and boiler roof replacement (\$72,000) were both delayed to later in the year. Solar power production capital of \$160,000 was a carryover from the fiscal year 2015 budget for the 585 Pine St solar project. Distribution spending was under budget (\$430,000 as compared to the budget of \$1,143,000) due to the timing of various capital projects. General Plant was only charged \$30,000 of a \$507,000 budget as IT capital spending is being deferred pending an overall infrastructure “needs assessment”. Lastly, the Other Production budget of \$10,000 was for the Apprentice Line Worker Training Yard and that project has been deferred to the spring of 2016.

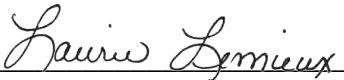
On the Cash side, we closed the month of September with close to \$9 million of unrestricted, unreserved operating funds. This balance includes a \$1,000,000 CD with Key Bank and the operating fund reserve of \$908,000. In addition to the Operating Fund we have established an (internally) restricted reserve fund of \$2.5 million for the employee Voluntary Buyout Plan. With several more payments made in August and September this balance is now at \$1,903,300.

Mr. Santerre then presented the three Moody's bond ratings indicators. The Adjusted Debt Service Coverage Ratio was 1.96 for the month (above the 1.50 required for an "A" bond rating) and the three year average was 1.48. The Days Cash On Hand showed 105 day cash position, which was well above the 90 day requirement for a single ("A") Moody's bond rating. The three year average was 78 days. (These numbers do include the \$5 million line of credit as available cash). The Debt Ratio showed us at a 45% and the three year historical average at 47%, both considered an "A" rating, which is below 75%.

The Commission thanked Mr. Santerre for all his hard work and years of service.

Commissioner Moody moved to adjourn the meeting at 7:18 p.m. The motion was seconded by Commissioner Herendeen and approved by all Commissioners present.

Attest:



Laurie Lemieux, Board Clerk