

**MINUTES OF REGULAR MEETING
BURLINGTON ELECTRIC COMMISSION**

Wednesday, August 12, 2015 – 5:30 p.m.

The regular meeting of the Burlington Electric Commission was convened at 5:30 p.m. on Wednesday, August 12, 2015 at the Burlington Electric Department at 585 Pine Street, Burlington, Vermont.

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

Staff members present included Neale Lunderville, Paul Alexander, Tom Buckley, John Irving, Mike Kanarick, Munir Kasti, David MacDonnell, Tom Lyle, Ken Nolan and Daryl Santerre.

Other staff members present included Laurie Lemieux, Board Clerk.

Channel 17 was present to tape this meeting.

1. Agenda

The Agenda was revised to move Item 8, the June 2015 Financial Update to Item 6.5.

2. Minutes of the July 8, 2015 meeting

Commission Herendeen moved to approve the minutes of the July 8, 2015 meeting as amended. The motion was seconded by Commissioner Stebbins and approved by all Commissioners present.

3. Public Forum

No one from the public was present.

4. Commissioner's Corner

There were no items to discuss.

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

a. TDI Agreement

The Department filed testimony stating that due to this transmission line, there could be an impact in the market. It further stated that there could also be an impact on the revenue the Department would get for selling McNeil because this line will likely lower the cost for power. The TDI group met with BED and after some negotiation a deal was

made. This deal allows BED a new funding stream to explore some interesting options for other types of generation or to find other ways to use the Department resources that were not available before. The terms of the deal will have to be after the financial close of the TDI deal before the Department will be eligible to receive the matching grant, which will not happen for some time. The other parts of the deal will allow the option to get transmission service at the best possible rate but will only occur if there is spare space available. If there is leftover space after the open season, then the Department can negotiate a deal.

b. GT Update

At the last Commission meeting Mr. Lunderville gave an update on the Gas Turbine with the hope that the project would be drawing to a close. Unfortunately the GT has not been fully commissioned as was expected. There are 2 jets on the GT, Jet A and Jet B. At the end of July, Jet B was successfully commissioned which allowed the department to bid that back into the market. Jet A was experiencing an issue with the fuel oil pump and a new fuel pump was ordered and received 2½ weeks ago. Once the pump was installed it was determined that this fuel pump was also bad, but trying to diagnose the issue was difficult since this new pump was performing exactly like the original pump. This fuel pump has now been replaced and Jet A has been brought up. The representative from Alba will be here this week to program the software which will allow the jets to come up together. When that happens, the GT will be fully commissioned and back in the market. The impact as of today, with the forgone revenue and the penalties is \$123,000. Due to the hard work of the Power Resource group the Department was able to lay off some of the obligation. Had that not happened the Department could be looking at that number being almost double. Mr. Lunderville stated that the Commission will be informed as soon as the GT is up and running at full capacity.

c. E-Billing Update

Approximately 190 customers have signed up for E-Billing through the Lake Monsters promotion. This is just the first of several promotions the Department plans to do to get customers signed up for E-Billing. Mr. Lunderville encouraged everyone to come out to the BED game day on September 2nd and would love to have the Commissioners join us.

Commissioner Newman stated that the BED website does not clearly explain what E-Billing is and asked if this could be edited so customers could better understand what E-Billing is.

Mr. Lunderville stated that the IBEW negotiations have started. There was a preliminary meeting on July 23rd with the first official meeting scheduled for August 13th. The August 13th meeting has been postponed one week until August 20th and this negotiation team will meet every Thursday until complete. In the past a one year contract was negotiated, but the City is now negotiating a multi-year contract. A 4 year contract is being negotiated, this contract will cover the year that just was and then the 3 years ahead, FY 15, then FY16, FY17, FY18.

Mr. Lunderville stated that in light of the tragedy in Barre this has prompted BED to look at the Department safety protocol. There is a protocol in place and every new employee is trained on this but the Department felt that employees should be retrained. At the employee meeting next Friday the safety video will be shown and Paul Alexander will remind employees of what will occur during a lock down event. In the coming weeks the Department will complete a drill with the Burlington Police Department with the employees on the first floor, Customer Service, Energy Services and Engineering.

Mr. Lunderville informed the Commission that this Commission Meeting would be Tom Buckley's last meeting. Mr. Buckley has taken the VBO and his official last day will be September 1st. Mr. Lunderville stated that the Department is very happy for Mr. Buckley but sad that the Department will be losing a valuable employee. On behalf of BED and staff the Department would like to thank Mr. Buckley for his many years of dedicated service and great work, especially in energy efficiency.

6. Reorganization & VBO Update

Mr. Lunderville stated that the Department has successfully gone through Phase 1 of the reorganization which is offering the buyout and closing it out. The buyout was offered to 133 eligible employees and 23 employees have opted to take it. Of these 23 employees, 20 will leave by the end of September. The Department anticipates keeping 3 employees for up to 3 months to close out critical projects.

The VBO has given the Department the flexibility to not fill some of these positions. The Department will be refilling 10 positions and not filling 13 positions.

The transitional piece (Phase 2) is underway and Phase 3 will be the successful close-out over the course of the next several months.

John M. Floyd and Associates (JMFA) have been on site for approximately 10 weeks. Since the last Commission meeting JMFA have been at the McNeil Plant conducting EMBoS Sessions to collect ideas from the employees at McNeil.

JMFA has come back with 225 recommendations for change at Pine Street. The Department has preliminarily accepted approximately 150 of the recommendations, some have been rejected and a number of ideas are pending with more study.

Mr. Lunderville explained one of the JMFA recommendations, the work order system that was implemented.

Mr. Lunderville presented the BED Strategic Transformation Update and Reorganization by stating that part of the Department reorganization is to find ways to streamline processes that do not add value, push authority and responsibility down to the front line and flatten the top to bottom organizational structure. To accomplish this BED will focus on three principles: safety,

reliability, direct connection with customers and internal development for the utility of the future. All this needs to be accomplished with the Department's focus on the bottom line.

Mr. Lunderville presented the proposed Organization Chart pointing out the key areas with all areas pointing back to BED customers. The key areas are:

Center for Safety and Reliability
Center for Innovation
Center for Customer Care

Mr. Lunderville stated that by adopting this concept as envisioned today it would take BED from 133 positions to 120 positions which is approximately a 10% decrease in the number of positions. The cost savings from making these changes would be \$1 million dollars annually in labor savings.

Mr. Lunderville is asking the Commission to consider endorsing this high level organization and asking BED to continue updating the Commission.

Commissioner Stebbins made a motion to have the Commission express initial support for the proposed reorganization of the Burlington Electric Department with monthly updates. The motion was seconded by Commissioner Herendeen and approved by all Commissioners present.

6.5 June 2015 Financial Update

Mr. Santerre presented a brief review of June 2015 year-to-date financial results.

This included a brief discussion of the \$2,246,000 Net Loss for the month and \$4,160,000 Net Income year-to-date. Mr. Santerre stated that the Net Loss of \$2,246,000 was essentially driven by the one-time charge to expense for the Employee Voluntary Buyout Program (VBO). We were required to book the entire cost, including the 18 months of insurance cost, in this fiscal year. We also discussed the Debt Coverage of 5.05 for the twelve months ended June 2015, and Cash and Construction Fund balances as of July 31, 2015. Mr. Santerre then provided a more detailed review.

Sales to Customers were up \$286,000 from a \$47,619,000 budget (1%) for the year, despite being down \$195,000 for the month. The monthly variance was driven by year-end "true-ups" of estimating unbilled revenues and kWh sales being below budget for the month of June. Other Revenue was below budget by \$125,000 on a year-to-date budget of \$3,615,000. Any variance in this revenue is driven by the timing of billings and customer requested work. In May we recorded the last major REC revenue sales and therefore power supply revenue, year-to-date was up \$1,403,000. This was another major reason for the Net Income of \$4,160,000 being reported for the year. The positive variance was mostly with the McNeil RECs (\$1.1 million increase over budget) as the wind production RECs were more in line with budget.

On the Expense side, power supply costs were down \$259,000 for the month and \$966,000 year-

to-date. This is a 2.9% positive variance on the \$32,825,000 power supply expense budget. Operating Expense was up \$2,847,000 for the month (\$2,617,000 year-to-date) with the accrual for the VBO costs. Taxes were down \$136,000 and Depreciation \$568,000 year-to-date as the budget assumed Winooski One starting in July rather than September 1st.

Other Income was down \$344,000 for the year largely due to the timing of billings/ contributions for the City's Waterfront North Access Project, while interest expense for the year was down \$302,000 as a result of timing of the Winooski One Revenue Bond.

Mr. Santerre then closed the discussion of the Net Income Statement by saying that the GASB 68 pension expense adjustment was still pending and would be booked by the time of the presentation of the "audited" year-end financial statements. He indicated that the adjustment would be large (\$1 million plus) and could very likely be a positive adjustment (that is, increase Net Income even further).

Mr. Santerre then discussed Capital Spending. In total, year to date ended June 30, capital spending was 83% (\$8,483,000) of the \$10,262,000 budget. McNeil/GT Production capital was 31% over budget (\$2,269,000 versus a budget of \$1,736,000) as the Gas Turbine control upgrade (\$1,345,000) was over the \$1,000,000 budgeted and the McNeil plant outage including replacing the super heater (\$568,000) which was not budgeted. The Gas Turbine additional spending was approved earlier by the Commission as well as replacing the super heater at McNeil while the outage was going on. Solar power production was right in line with budget at \$1,643,000 of a \$1,591,000 budget. Distribution spending was under budget (\$2,261,000 as compared to the budget of \$3,743,000) and General Plant was below budget (\$593,000 of \$1,377,000 budget) due to the timing of various capital projects.

On the Cash side, we closed the month and fiscal year with \$9,088,000 of unrestricted, unreserved operating funds. This balance includes a \$1,000,000 CD with Key Bank and the operating fund reserve of \$908,000. During the month of June the Construction Fund 2009 balance of \$714,500 was closed out as well as the \$500,000 balance in the fiscal year 2015 general obligation bond (\$3 million annual). 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 payments made in July this balance is now at \$2,131,000.

Mr. Santerre then presented the three Moody's bond ratings indicators. The Adjusted Debt Service Coverage Ratio was 1.70 for the month (above the 1.50 required for an "A" bond rating) and the three year average was 1.44. The Days Cash On Hand showed a 93 day position, which was the fourth consecutive month that we have been above the 90 day requirement for a single ("A") Moody's bond rating. The three year average was 74 days. (These numbers do include the \$5 million line of credit as available cash). The Debt Ratio showed us at a 47% and the three year historical average at 48%, both considered an "A" rating, which is below 75%.

7. Solar/Storage Discussion

Mr. Nolan stated that solar installation in the state is ramping up and in the last 2 years VELCO

has seen a shift in peak load from the afternoon to evening hours. The problem this creates is BED's capacity costs and transmission costs are allocated based on peak hours for capacity, the New England wide peak for the year and transmission costs are based on Vermont peak loads every month. As more solar is installed this drives the loads down during the middle of the day which means the peak load now occurs late afternoon and early evening. Mr. Nolan explained that to counter this BED is now considering commercially available storage solutions. Mr. Nolan stated that BED customers are contacting solar installers and are seeing the environmental benefits and the ability to defer utility costs.

Mr. Lunderville stated that customers see the solar panels, they are seeing marketing materials and this affords BED the opportunity to engage more closely with BED customers. If BED has a product or a platform to help our customers this will be extremely important for BED in the future.

Mr. Nolan stated that the Department has come together with ideas to help combine all the efforts into one product for the customer. One way is by taking the general energy efficiency program design used for past programs and applying it on the resource side. The DPS has received grant funding from the Department of Energy to be used for permit reform. BED has been working with City administration and the Department of Public Service to obtain a \$25,000 grant to revamp the City's approach to solar permitting. The grant would assist in streamlining the permit approval process and to create a solar ombudsman position at BED to assist customers and developers on how to navigate the system.

Mr. Nolan stated that BED has been working with a consultant and investigating what things the utility would have to implement to make the Department ready for the future. One of the things the consultant is working on with the BED is possible revenue streams associated with different types of solar and storage installations.

Mr. Nolan reviewed the timeline with the Commission which included timeframes for the following:

- Third party options
- Completing a value stream analysis
- Developing on bill finance structure
- Finalizing the program structure
- City and regulatory approvals
- BED program launch
- City permit and policy process revision
- BED ombudsman in place.

The anticipated date for the solar/storage incentive program is July/August 2016.

9. REC Sales for 2017 and 2018

Mr. Lunderville stated that this presentation does contain highly sensitive information about

potential market purchases that BED is contemplating and believes that premature public knowledge would put the Department at a substantial disadvantage.

Commissioner Herendeen moved to find that premature general public knowledge of the REC Sales for 2017 and 2018 would clearly place the Burlington Electric Department at a substantial disadvantage per Title 1, Section 313 (a)(1) of the Vermont Statutes. Commissioner Stebbins seconded the Motion. Motion passed and approved by all Commissioners present.

Commissioner Herendeen moved that the Commission enter into executive session to discuss REC Sales for 2017 and 2018 under the provisions of Title 1, Section 313(a) (1) (A) of the Vermont Statutes. The motion was seconded by Commissioner Stebbins. Motion passed and approved by all Commissioners present.

The Commission moved into Executive Session at 7:12 p.m.

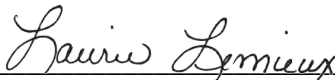
Commissioner Perrin moved to exit Executive Session at 7:59 p.m. The motion was seconded by Commissioner Herendeen and approved by all Commissioners present.

Commission Stebbins made a motion to that the Burlington Electric Commission supports the REC sales proposal. The motion was seconded by Commissioner Herendeen and approved by all Commissioners present.

Commission Newman made a motion that Burlington Electric Commission directs the next IRP Committee to consider the retirement of RECs and REC strategy as part of the next IRP process. The motion was approved by all Commissioners present.

Commissioner Herendeen moved to adjourn the meeting at 8:00 p.m. The motion was seconded by Commissioner Stebbins and approved by all Commissioners present.

Attest:



Laurie Lemieux, Board Clerk