

**MINUTES OF REGULAR MEETING
BURLINGTON ELECTRIC COMMISSION**

Wednesday, October 26, 2022 pm

The regular meeting of the Burlington Electric Commission was convened at 5:11 pm on Wednesday, October 26, 2022 at Burlington Electric Department at 585 Pine Street, Burlington, Vermont and virtually through Microsoft Teams.

Channel 17 was present to record this meeting.

Commissioners Chagnon, Herendeen, Moody, Stebbins, and Whitaker were present.

Staff members present at 585 Pine Street included Rodney Dollar, Mike Kanarick, Munir Kasti, Laurie Lemieux (Board Clerk), Paul Pikna, Darren Springer, and Emily Stebbins-Wheelock.

Staff members present via Microsoft Teams included Paul Alexander and Erica Ferland.

1. Agenda

There were no changes to the agenda.

2. September 14, 2022 Meeting Minutes

Commissioner Whitaker made a motion to approve the minutes of the September 14, 2022 Commission Meeting; the motion was seconded by Commissioner Herendeen and approved by Commissioners Herendeen, Moody, Stebbins, and Whitaker. Commissioner Chagnon abstained as he was not present for the meeting.

3. Public Forum

Heather Kuney and Scott Warnetski from KPMG were present at the meeting. There were no public comments.

4. KPMG Audit Presentation

Ms. Stebbins-Wheelock welcomed Mr. Scott Warnetski and Ms. Heather Kuney from KPMG. Mr. Warnetski is the lead partner and Ms. Kuney is the manager for BED's audit engagement. KPMG will be presenting slides for the Commission in public session and at the appropriate time the Commission is free to move into Executive Session. At this time Ms. Stebbins-Wheelock turned the presentation over to Mr. Warnetski.

Mr. Warnetski explained that for rotation purposes within KPMG, the firm limits the tenure of a lead

partner on a particular engagement to 10 years. Due to the firm limit, this year Mr. Warnetski replaced BED's previous lead partner, Mr. Brock Romano.

Mr. Warnetski began the summary of the audit results, required communications, and other matters.

- Outstanding matters include finalization of subsequent events review, update of legal letters, finalization of EEU test work, investment valuation testing, completion of journal entry testing, tie out of updated financial statements including statement of cash flow, pension contribution test work, and completion of quality control review procedures.
- There is one uncorrected audit misstatement related to the Moran Frame note. Currently this is recorded as a combination of a non-current and a current asset on the balance sheet with an offsetting liability to be paid in future years. KPMG reviewed the accounting treatment and discovered that the current accounting treatment has not been approved by the regulator to allow this to be carried as an asset. Without such approval, the appropriate treatment would be to expense this during the current period in which it was recorded. This is considered an uncorrected misstatement as management will not be correcting it. It's not a material error to the financial statements, but it is above KPMG's audit posting threshold, so they are required to communicate that to the Commission as well as attach it to the management representation letter. Commissioner Stebbins asked why the item will be left uncorrected. Ms. Stebbins-Wheelock explained that after discussion with KPMG, the Department has decided to file a request with the Vermont PUC for an accounting order to treat the Moran liability as a regulatory asset and amortize the expense over multiple years. If the accounting order is not approved by the PUC, the Department will book the expense in FY23, which would be an uncorrected misstatement for that year.
- There is one corrected audit misstatement, a reclassification issue. The financial statements' net position is broken out between two elements: restricted with bond trustees and unrestricted. Typically, when you have issued your bonds, most of those funds are allocated to capital assets. However, in FY22 the Department issued new debt, almost all of which is currently within a construction account as unspent bond proceeds, and therefore not yet associated with capital assets. These proceeds were included with unrestricted net assets instead of offsetting the investment amount. Nothing has changed as a result, but it was a large item and management has corrected the presentation.
- There were no corrected misstatement differences identified.
- Non-GAAP policies and practices: The Department has adopted certain accounting policies that, if applied to significant items or transactions would not be in accordance with U.S. generally accepted accounting principles. The Department has evaluated the effect of the application of such policies and practices on the financial statements and concluded that such effect is not material to the 2022 financial statements.
- There were no matters to communicate regarding material weakness or significant deficiencies.
- There were no disagreements with management.
- There were no significant changes to the risk assessment and audit strategy.

- KPMG has discussed with management our judgments about the quality, not just the acceptability, of the Department's accounting principles as applied to its financial reporting. During the year ending June 30, 2022, the Department implemented a change in accounting policy for the costs associated with Vermont Renewable Energy Standard compliance from an annual expense to an inventory basis. The change in accounting policy resulted in a restatement of the Department's June 30, 2021 financial statements.
- KPMG has evaluated the key factors and assumptions used to develop management's material estimates and found them to be reasonable in relation to the financial statements taken as a whole.
- KPMG has reviewed the significant financial statement disclosures and compared them against required disclosures, noting the presentation appears appropriate.
- There were no difficult matters or disagreements with management, and no actual or suspected fraud involving management, employees with significant roles in internal control, or where fraud results in a material misstatement in the financial statements were identified during the audit.

KPMG expects to issue an unmodified opinion on the Department's FY2022 financial statements. Mr. Warnetski stated that a required management representation letter will be obtained once all KPMG procedures are performed and prior to the issuance of the audit.

Commissioner Herendeen asked what level of fraud could be detected by KPMG's audit procedures. Mr. Warnetski replied that KPMG sets levels for materiality that are designed to assure that KPMG meets the standard of providing reasonable assurance. KPMG's procedures are designed to uncover financial statement fraud, or the manipulation of financial results, not misappropriation of assets, as the associated dollar amount is often quite small.

Commissioner Stebbins asked about cybersecurity matters and what the Commission should be keeping an eye on. Mr. Warnetski replied that KPMG does make inquiries during the audit as to events or incidents that could affect the financial statements, but generally speaking, cyber-incidents that could affect core utility operations are more critical than those that could affect financial systems.

Commissioner Stebbins asked for an update on inventory procedures that were an issue identified during a prior audit several years ago. Ms. Stebbins-Wheelock responded that the Department reviewed and updated its internal inventory procedure over a period of several months following the FY 2019 audit. These procedures have been implemented and appear to be working well.

The best practice following an audit report is for the Commission to call an Executive Session to review any issues that auditors may not feel comfortable discussing with management present.

Commissioner Whitaker 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 counterparties 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 Whitaker 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 Herendeen and approved by all Commissioners present. The Commission moved into Executive Session at 5:39 p.m.

Commissioner Whitaker made a motion to exit Executive Session at 5:50 p.m. This motion was seconded by Commissioner Herendeen and approved by all Commissioners present.

Commissioner Moody made a motion to accept the KPMG audit report. This motion was seconded by Commissioner Herendeen and approved by all Commissioners present.

5. Commissioners' Corner

Commissioners Herendeen and Moody stated that they enjoyed the Net Zero Energy Festival, and it was a great success.

Commissioner Herendeen also thanked the staff for the Commissioner's Award and recognition he received at the September Commission Meeting.

Commissioner Moody stated that his neighbor has completed energy efficiency upgrades and expressed some concern regarding the quality of their electric service. Commissioner Moody stated that the quality of service after these upgrades could be a great hindrance to residents considering electrification.

Mr. Springer stated what we have learned over time regarding 100-amp or 200-amp service is that installing a heat pump, EV charging, etc. could affect your service. The department has had some conversation with the City regarding permitting and whether a permit to upgrade your service should be a requirement or a recommendation. It is possible to get to a point where a customer who is installing many upgrades may have enough power at any given time based on what items are requiring power at any one time, but if everything were being used at the same, a situation may result where the service is not able to accommodate.

Mr. Springer stated that there is a technology solution for EV charging. A company that participated in our annual DeltaClimeVT competition has created a collar for the chargers that ensures that use of the charger will not result in a failure of the circuit box.

One issue we are tracking is the State of Vermont looking at allocating \$20M in federal funds towards supporting electricity upgrades as part of a broader electrification effort. We believe there

will be income limitations around these funds, and we will share the information with our customers once these funds are available.

Commissioner Stebbins stated that at the last Commission meeting we spent a considerable amount of time discussing street lighting. Commissioner Chagnon was not at that meeting, and Commissioner Stebbins reached out to get his input and also spoke with the other Commissioners to see where they stood on the street lighting issue.

Commissioner Stebbins stated that she spoke to an energy lighting expert who lives in the South End of Burlington regarding BED's street lighting policy along with interpretation of the IES recommendations. Commissioner Stebbins asked this lighting expert if he would be willing to serve on a committee to look at our policy and BED's interpretation of the IES recommendations. He stated that he does not want to spearhead a large stakeholder initiative but is willing to attend a couple of meetings. Commissioner Stebbins stated that she spoke to Mr. Springer and Mr. Kasti regarding her findings and is hoping that in the next 3-4 weeks they could find some time to meet with herself, the lighting expert, and any others who would be interested in attending to look at whether or not there are any other nuances that could be investigated. Commissioner Herendeen expressed interest in participating in this meeting.

Mr. Kasti stated that presently he is covering for the Director of Engineering, Director of Grid Services, and Director of Generation, and that our Chief of Field Services' last day is Friday, and one Engineer will be out on 4 weeks' leave. Mr. Kasti stated that November probably would not work for him, but that he probably could schedule a meeting in the first week of December. Mr. Kasti asked for a list of individuals who Commissioner Stebbins would like invited to the meeting and indicated that BED would send the meeting invite.

Commissioner Stebbins stated that she took a drive last night around 9:30 pm to try and get a sense of what the real-life experience is regarding street lighting, and that what she discovered were striking differences from street to street.

Morse Place is so dark that it looks like it doesn't have any lighting, Ferguson Avenue and Lyman Avenue have medium grades of lighting, and the updated lighting on Scarff Avenue and Richardson Street is extremely bright. Having now driven around, Commissioner Stebbins stated that she can understand why some residents have asked about the necessity for all the lighting. Commissioner Stebbins stated that these updated streets went from 25-year-old lighting that had degraded over time to extremely bright lighting. A simple light bulb change would have seemed brighter without having increased the brightness to current levels. Commissioner Stebbins would like to ensure that the department does not move on with lighting Lyman Avenue according to our current standards until we have looked at this issue more. Mr. Kasti stated that he was good with postponing the lighting upgrades until spring.

Mr. Springer stated that he agrees that it would be helpful to have a conversation and to engage and ensure that residents have a clear understanding of what we are doing and why. Our challenge is

that this is part of our capital budget, and any postponement beyond spring could be challenging because we would be looking at violating our own standards, which we would not want to do.

Commissioner Stebbins stated that in the interim we would hold off until spring, hold the meeting, and see where it goes. Mr. Kasti stated that the department is going to start the electrical installations but will hold off on the actual street lighting until the spring because these are two separate construction projects.

Commissioner Chagnon asked if the concern was really that the lights are too bright or was it that the residents are just not used to the new levels. Commissioner Chagnon stated that the Commission has an obligation to look at the safety factor first and that as a driver he would rather see someone walking on the sidewalk or crossing the intersection than have a lower light level and not be able to see a pedestrian.

Commissioner Herendeen stated that the Commission should have a position statement regarding all the lighting issues. The statement could explain why we are pursuing a policy that might make a lot of changes and would position safety against dark skies and safety against sleep and include an explanation about why we would like to pursue lighting changes instead of doing nothing.

Commissioner Stebbins will follow up regarding this issue and will forward a list of individuals who should be invited to the meeting in December.

6. GM Update

Mr. Springer stated that he would update the Commission on a couple challenges we are facing, and that Mr. Gibbons, who could not be at the meeting, will provide a more comprehensive briefing at the November meeting. There are two challenges that we are facing, which are reliability and pricing. The reliability challenge is significant enough that ISO-NE has entered into a contract to keep a liquefied natural gas tanker parked at the Mystic station and is charging utilities pro rata. The costs for this are unknown going forward, and already in FY23 have had more than a \$100,000 impact on BED. ISO-NE continues to have concerns about ensuring adequate fuel supplies, and this again highlights the relevance and importance of McNeil as a winter resource for BED and Vermont.

BED continues to monitor potential legislative issues that could come up this session relative to McNeil and the State of Vermont Renewable Energy Standard. Restrictions on what types of renewable resources count towards state requirements, restrictions on district energy, or efforts to require additional procurement from utilities that are already 100 percent renewable could present challenges for BED relative to our local climate goals and our costs for customers. Mr. Springer stated that, if there were changes to the Renewable Energy Standard that were disadvantageous to BED or if there were efforts to disadvantage McNeil, we would be particularly challenged. The Biomass Task Group is proposing restrictions that could limit our ability to do district energy, a result that would be just the opposite of what a climate focused effort would need. We would want district energy regardless of their view of McNeil because it makes the plant more efficient and

decarbonizes a significant amount in Burlington. We have a meeting with VGS to go over pricing issues, and the EverGreen team will be in town next week to work on completing some of the engineering and design work, and we had a meeting of the 501C3 board that is going to govern the EverGreen process. Mr. Springer will keep the Commission updated as we move forward.

BED held the annual employee appreciation lunch at McNeil this year on October 12, and Mr. Springer thanked Commissioner Moody for joining us. We had the chance to honor employees celebrating the 5-year anniversaries of service to the City and community, including Chery Mitchell with 35 years and Greg Thayer with 40 years.

BED has been made aware from the City that it may now be asserting that BED should be responsible for the entire cost of the retroactive payment (approx. \$1.3 million) made to BERS related to the recent IBEW arbitration over retirement/pension. Previously the City had indicated that BED would be responsible for a pro rata share (approx. \$435,000), and BED had submitted that information for prior rate case and financial audit purposes. We are engaging with outside counsel the City has retained to look at this matter.

5. July Financials

Ms. Stebbins-Wheelock presented the July 2022 financial results.

The Department's net loss for the month and year to-date is \$1.1M compared to a budgeted net loss of \$446K. Ms. Stebbins-Wheelock noted that the July results reflect the incorrect recording of a \$1M REC purchase that has subsequently been corrected. The purchase occurred in FY 2022, and has been recorded there, so the July expense shown is overstated by \$1M. This entry was reversed in August, as will be reflected in the August financials.

Sales to customers were above budget by approximately \$15K. Miscellaneous revenues were under budget.

Power supply expense was over budget by \$1M, due mostly to the incorrectly recorded REC purchase. Fuel was also over budget as McNeil production was higher than budget. The Department was also charged an unbudgeted expense of \$21K by ISO-New England related to the winter reliability for the Mystic natural gas station. Wind production was also overbudget. O&M expense was favorable by almost \$500K mostly due to timing. The payment in lieu of taxes to the City was less than projected which means we will save \$240K vs. budget for the year.

Capital spending overall is 8% of budget. The Department made its budgeted VELCO equity investment in July, representing 91% of transmission capital; we will have another small equity call in December. In other capital, the Department continues to experience supply chain delays that are affecting Distribution, Production, and IT.

The Department's cash position was \$5.9M as of July 31.

August Financials

Ms. Stebbins-Wheelock presented the August 2022 financial results.

The Department had a net income in August of \$2.4M, which was \$197K better than budget. For fiscal year 2023 to-date the Department has a net income of \$1.2M compared to a budget of \$1.7M, approximately \$477 under budget.

Sales to customers revenues were on budget. Power supply revenues were \$260K under budget, due to lower than budgeted McNeil and wind production in prior periods.

Power supply expenses were better than budget by \$658K. Fuel expense was favorable to budget, as McNeil was offline for part of the time, so our production was less than budgeted. This was offset by an increase in the wood price that we made to secure an adequate supply for the winter. Capacity expense was unfavorable vs. budget by \$100K; this includes a \$120K ISO-NE winter reliability charge for Mystic in August. Purchased power expense was favorable by \$523K, including the adjusting credit of the \$1M for the FY 2022 REC purchase. Operating expense was unfavorable to budget by \$182K due to timing; gain/loss on disposition of plant was also favorable due to timing.

Capital spending for August overall is at 17% of the annual budget. As of August 31 the Department had \$6.6M in cash, or 101 days cash on hand. The Department's Moody's rating metrics for the 12 months ended August 2022 were 3.88 debt service coverage ratio and 1.09 adjusted debt service coverage ratio.

6. Commissioners' Check-In

There were no Commissioner Check-Ins.

Commissioner Moody made a motion to adjourn; the motion was seconded by Commissioner Chagnon and approved by all Commissioners present.

The meeting of the Burlington Electric Commission adjourned at 6:55 p.m.

Attest:



Laurie Lemieux, Board Clerk