

**VELCO Operating Committee
MINUTES FINAL**

August 16, 2012, 11 a.m. – 3 p.m.
Green Mountain Power, Montpelier Office

Participating members: Ellen Burt (Stowe Electric Department), Ken Couture (Green Mountain Power), Tom Dunn (VELCO), Ken Mason (Lyndonville Electric Department & VPPSA), Ken Nolan (Burlington Electric Department), Paul Renaud (VELCO), Bill Powell (Washington Electric Cooperative), Kevin Perry (Vermont Electric Cooperative), and Jeff Wright (Vermont Electric Cooperative).

Other participants: Deena Frankel (VELCO), Mike Loucy (VELCO), Allen Stamp (VELCO), Michelle Nelson (VELCO), Kerrick Johnson (VELCO), Allen Stamp (VELCO), Chris Dutton (VELCO).

Meeting Opening:

- Mr. Dunn opened the meeting at approximately 11:00 am.
- Mr. Dunn introduced Mr. Powell, Washington Electric Cooperative (WEC), to the Operating Committee (OC).
- Mr. Mason asked if all utilities are members of the OC. Mr. Dunn stated they are all welcome, but the bylaws would need to be changed to allow them voting rights. Mr. Dutton mentioned VELCO's new Board of Directors (Board), once reconstituted, would need to take action on changing the bylaws.
- Mr. Mason asked if future agenda's would be sent out to every distribution utility (DU). Mr. Dutton suggested the distribution should remain with the voting members who can distribute to non-voting members, but VELCO is open to discussion. The current assumption is the Vermont Public Power Supply Authority (VPPSA) representative, as a voting member of the OC, would serve as a conduit to its membership.

Minutes Approval:

- Approval of the minutes of the August 16, 2012 meeting was moved by Mr. Wright, seconded by Ms. Burt and approved without dissent.

Vermont Long Range Plan Sub-transmission Upgrades:

- Mr. Renaud reported on the findings Vermont Long Range Plan (LRTP) sub-transmission upgrades analysis performed by VELCO Planning. Several areas of concern were identified and Mr. Renaud discussed impacts of N-1 scenarios, system deficiencies, leading transmission solutions, lead utilities, next steps, and approximate schedules.
 - Colchester Area –
 - Ms. Frankel mentioned this area is screened out of full NTA analysis according to the LRTP. Mr. Renaud will check on the discrepancy and report back to the OC.
 - Rutland Area –
 - Mr. Dunn mentioned this area is complicated by a proposed generator on Grandpa's Knob which is ahead of GMP in the ISO queue for a spare bus position at West Rutland. The uncertainty surrounding the projects approval and the difficulty in obtaining reliable forecasts can lead to different conclusions.

Next meeting

September 17, 2012
10 a.m. – 2 p.m.

Joint meeting with CFO
forum

At VELCO, Rutland

- Mr. Renaud mentioned that the addition of Grandpa's Knob will make the solution at West Rutland for this reliability need more expensive and will make the South Rutland alternative solution closer in cost to the West Rutland solution.
 - Mr. Wright questioned the process going forward if the generator doesn't come on line and asked how the costs would be treated?
 - Mr. Dutton asked how much generation placed in this area would be necessary to deal with this issue. Mr. Renaud was not sure what the load level would need to be to solve the challenge. Mr. Couture estimated the proposed 5 Megawatts (MW) within the Rutland area would drive the need for NTA.
 - St Albans Area
 - Mr. Dunn mentioned GMP has called for VELCO to move forward with the solution of installing a transformer at the Georgia substation.
 - Mr. Renaud mentioned the NTA analysis has been completed, but further evaluation of the area is needed and is planned to commence in the fourth quarter of 2012.
 - Mr. Dunn mentioned VELCO was close to calling for a load shedding event as a result of the recent loss of an aged transformer at the St Albans substation. This event prompted VELCO to expand its analysis of the area.
 - Hartford Area –
 - No discussion developed from the presentation.
 - Northern Area –
 - Mr. Wright asked if the study incorporated Portland Pipe being off line. Mr. Renaud replied he will verify if the study was run with Portland Pipe off line and report back to VEC and the OC.
 - Mr. Wright suggested Scott Harding of VELCO should coordinate directly with Kris Smith of VEC to make sure both organizations are up to date with system assumptions. Mr. Renaud agreed and will update Mr. Harding.
 - Vernon Road Area –
 - Mr. Renaud asked Mr. Couture if GMP has initiated the CPG filing for this area. Mr. Couture responded that he will check with GMP representatives and report back to VELCO and OC.
 - Mr. Renaud mentioned VELCO received Proposed Plan Application (1.3.9) approval from the ISO-NE in June of 2012.
 - IBM Area – included in the plan although not specifically called out in the table.
 - Mr. Renaud reported this area has been included within the plan although it is not specifically called out in the table. The purpose is to study how to reduce exposure in and around the IBM facility. The study will take place over the next year and VELCO wanted to socialize this with GMP and BED.
 - Mr. Dunn mentioned this area has five terminals and the configuration led to the recent IBM outage. A main emphasis of the study is identifying solutions that shorten outage potential. Another known risk is that the current vendor of the Essex STATCOM, Mitsubishi stopped supporting the device.

Fiber Project Update:

- Allen Stamp and Mike Loucy presented the Fiber Project update slides.

- Mr. Stamp reported that approximately 750 miles of both make ready and fiber installation are complete and the project is moving into closing phases. The closing phases will include a combination of several smaller projects, preparing close out documentation, and developing plans for the routes requested to be constructed in 2013.
- Mr. Loucy reported on the status of third-party co-build discussions. Some activity has occurred this month. Non-disclosure agreements (NDAs) are in place with VTel and Sovernet. Our goal is to be consistent between the two telcos. We have made progress to the point of conceptual agreement and are now focused on getting signed agreements. The reason for talking to these telcos is they are both Federal grantees, so it doesn't make sense to overbuild in their territories unless we are unable reach a fair agreement. For Vt - Vt ratepayers and taxpayers it makes more sense find synergies in build plans that yield cost savings.
- Mr. Wright asked whether there are any conversations going on with Vermont Telecommunications Authority (VTA). Mr. Loucy stated VELCO's Telecom team continues to review opportunities proposed by the VTA, but to date the proposed routes do not offer VELCO with improved reliability and are therefore beyond VELCO's fiber scope
- Mr. Wright asked specifically about Wenlock. Mr. Nelson stated that VTA approached VELCO and after some review VELCO determined it was interested, but the VTA didn't have any dates at the time. As a consequence of not having a concrete opportunity with VTA, we are proceeding with our short (5 mile) project in that area. Mr. Loucy observed that VTA is trying to stretch its dollars by hoping to add small margins that make otherwise uneconomic projects viable.
- Mr. Loucy discussed the issue of fiber in the electric space on distribution routes, which exists in several locations around the state. In working with GMP on this issue, GMP obtained a legal risk analysis of installing fiber in electric space and various ownership scenarios. Legal counsel advises that having fiber in the electric space may lead to vulnerability in that other third parties may then request access for their attachments in this same space. Legal counsel further observed that the best defense against this potential occurrence is to have a plan to move the fiber to the communications space within three years. This may be the only viable way to avoid the charge that the DU is favoring itself. It is believed the potential risk is limited to the specific routes where the fiber is in the electric space. Legal counsel further opined that if VELCO owns the fiber that the DU's defense is not further eroded unless a non-utility party is allowed access to the fiber. Practically speaking the risk may be low because the telcos don't really want to work in the electric space.
- Mr. Stamp stated that, if the telco negotiations are successful, it will save a significant amount of money. It would save about 140 miles, many of them very difficult miles.
- Mr. Dutton asked how the work with IBM is going. Mr. Loucy said it is going well with normal challenges. In general they are very responsive but our team has learned to recognize the time they need for internal process.

Statewide Radio Project:

- Mr. Nelson reported 100% of sites are permitted and twenty-eight (28) sites are commissioned. VELCO is using the statewide radio system now along with a few DU's who are participating in testing and feedback.
- Mr. Nelson made specific mention of the Wells site whereby the Public Service Board (PSB) approved the entire condemnation. VELCO had one criterion which is to find an alternative power supply for the site. The State of Vermont Division of Fire and Safety has approved the use of armored cable laid directly on

the ground this type of installation meets all state regulations. This is the alternate power supply VELCO is pursuing.

- Mr. Dunn asked how many towers are required for the areas on the map identified as having “no service”. Mr. Nelson stated four (4) towers in total are necessary and all have closure plans.
- Mr. Dunn asked for an update regarding the construction schedule for the Wells site. Mr. Nelson reported the Wells site is in preconstruction now and construction will follow in near future. The one scheduling challenge is the request by the property owner to not conduct any construction activities during August 17 to 25, 2012. Mr. Nelson stated VELCO is sensitive to this request and plans to cease construction during this timeframe continuing our cooperative efforts.
- Mr. Nelson discussed the landowners continue to challenge VELCO every step of the way even though the PSB has approved the site with all of the conditions proposed by VELCO. Mr. Dutton further explained the landowners wanted several hundred thousand dollars as payment for the rights but the PSB awarded approximately \$20K value.
- Mr. Nelson next presented that with the merger of GMP and CV, it may make sense to reconfigure the management of the statewide radio project and make one large talk group vs. two. By doing this all GMP employees would be able to more effectively communicate over the network. This is in design and the remaining participants are readying for deployment.
- Mr. Dunn asked how many utilities will use the network by end of the year. Mr. Nelson reported at least six (6) utilities by end of year. Mr. Loucy mentioned recent discussions with Stowe Electric indicated they are also interested in joining in on the use of the statewide radio network.

Telecom Subcommittee Update:

- No update.

Effects of SPEED, Net Metering and Other Programs on Load Forecasts:

- Mr. Renaud presented that load forecasts are one of the primary assumptions affecting system analyses. Using load forecast and comparing against critical load for each identified need will generate what is referred to as a reliability gap. This gap grows as load increases over time. Mr. Renaud pointed out data from ISO-NE indicating they have established 1.0% annual load increase, which is 0.5% lower than their previous forecast. In 2015 energy efficiencies forward capacity market is capped at 124 and forecast then picks up. Overall the Net Load forecast is decreasing from 1019 to 947.
- Mr. Renaud discussed treatment of energy efficiency (EE) and demand response (DR), which is leading to significant uncertainties regarding the timing of criteria violations and reinforcements. The increase of SPEED/standard offer resources and net metering are resulting in a decrease in the load forecast. From the Vermont Comprehensive Energy Plan, these programs are forecasted to have significant increase in 2011 and 2012 – more than 12 MW for the SPEED program and 9 MW for net-metering for a combined renewables of about 21 MW. The significant percentage of the proposed projects are located in the upper northern portion of the state. Mr. Renaud mentioned that VT could benefit more if these injections were closer to the load centers particularly to assist with the Coolidge to Rutland reliability concerns.
- Mr. Renaud reported that VELCO’s Planning engineers have looked at some sensitivity (conservative) analyses of EE and DR. Through these conservative assumptions, the load forecast still indicates an overall decrease in peak demand. What does it mean to the current NTA analysis? Adding in demand response and net metering has an initial impact with positive load margin and adding in SPEED yields a slightly positive margin out into the future.

- Mr. Renaud concluded this portion of his presentation by summarizing the increase in SPEED and DR may significantly delay the need for VELCO upgrades. In particular, Central Vt upgrades (Coolidge to West Rutland) will not be necessary for several years, but we need to work with ISO over the next few months to better vet methodologies. The key is to ground truth the assumptions made.
- Mr. Renaud stressed the importance of working closely with the ISO and the specific need to true up the assumptions around load forecasts. VELCO's methodology is a bit different from what ISO utilizes which provides VELCO the opportunity to influence ISO-NE's approach. This may reduce the discrepancies in load forecasting.
- Mr. Dutton suggested it is likely the PSB will ask what the impacts on rates are and the tipping point will come when we should not be subsidizing the renewable as much. The concern is that if the programs link net-metering program offers an individual competitive rates, conceivably a significant number may opt to go off grid. This may have a negative societal impact as fewer consumers would now need to cover the carrying costs of the electric system. Damping down the subsidies of such programs to minimize impacts on supply market is one possible outcome.
- Mr. Nolan's mentioned BED team members recently attended at a net-metering conference and heard ISO-NE is contemplating limiting Highgate if the renewables are at 100 % output. He asked what impact on VELCO's reliability would this have. Mr. Renaud provided a brief review of the likely impacts concluding that there would be no significant reliability concern for VELCO.
- Mr. Wright asked if a concentration of renewable sources occurs, what reliability impacts would this have as the renewable injections are sporadic at best.
- Mr. Renaud offered that ISO is struggling with the same questions.
- Mr. Dutton offered the industry must become more sophisticated in its understanding of the renewable market. The cycling on and off of the renewables is very tricky to assess and key to building assurance.
- Mr. Wright asked if VELCO has seen any impacts from Sheffield Wind?
- Mr. Dunn offered that Sheffield Wind generation has been very small so VELCO hasn't seen issues.
- Mr. Mason asked if VELCO can use historical output from generators
- Mr. Renaud stated we can and this is consistent with ISO but the information is not public. Mr. Dutton summarized the financial impacts to VELCO if the decreasing load forecasts are correct. In general large upgrade projects will be shelved as in the case of Coolidge to West Rutland decreasing VELCO's estimated spend by \$157M. Mr. Dutton further explained VELCO has already put into place a plan to increase routine structure replacements to continue to improve reliability.

Income Tax Resettlement:

- Ms. Nelson reported Deloitte & Touche performed VELCO's 2011 annual audit and determined Vt Transco had over collected from its transmission customers income tax expense for the years 2007 to 2010. This error was the result of the accounting treatment used for capitalized interest in the calculation of income tax expense. A return of the funds was made in June 2012 for \$8.147M.
- On August 7th, 2012, Mr. Brian Callnan of VPPSA sent a letter and accompanying analysis to Ms. Nelson highlighting some Vt utilities have substantially changed their Purchaser's Peak Billing Demand (PDP) statewide allocation share during 2007-2010 timeframe. This change has caused some transmission customers to receive less in the return of the over-collected funds than originally billed. Mr. Callnan's letter continued and proposed that the transmission customers affected by the misallocation agree to VELCO resettling the over-collected funds based on how the funds were collected each month for the duration of the over-collection period. A table and analysis provided by Mr. Callnan indicated that Green Mountain Power (GMP) received \$208,904 in excess of what they were due. Furthermore, the table

showed BED, the State of Vermont, Stowe, VEC, VPPSA and WEC all received a total of \$208,904 less than what they were owed.

- Mr. Couture noted based on the information presented to GMP to date and GMP's desire to "do the right thing"; GMP was reviewing its options as to how it could refund the \$208,904. GMP noted that it had worked extensively with the DPS on how the June 2012 resettlement would be treated. GMP was able to come up with a methodology for how the funds would be handled that and included this in its final Alternative Regulation (Alt Reg) filing with the Department of Public Service (DPS). With the Alt Reg filing finalized for the fiscal year, it was GMP's position that it would not be possible to include any proposed refund in fiscal year 2013 (Oct 2012 to Sept 2013). Furthermore, GMP did not feel it would be possible to include this charge as part of one of its quarterly financial reviews with the DPS and it would need to be taken up next summer as part of the Alt Reg process leading up to fiscal year 2014. Mr. Mason inquired if the process would benefit from a motion from the OC indicating the team looking into this and had the OC's support. Mr. Dutton offered the perspective that work needed to be done offline to determine, among other things, the approval(s) that would need to be secured to allow for such a refund to take place. No motion was advanced.
- Mr. Mason asked what the \$209K would represent as part of GMP's operating budget. Mr. Couture stated it would be a minor component compared to the overall budget but the challenge was in how GMP would be reimbursed for the funds now that its 2013 Alt Reg filing had been finalized and submitted to the DPS for final review.
- Ms. Nelson recommended the payment flow through the VTA transmission bill to provide better visibility of fluctuations. Mrs. Nelson offered to bring this up at the next CFO meeting as the October 2013 date is a relatively new piece of information.
- Ms. Nelson suggested this issue be tabled for the OC and she will bring it to the combined OC & CFO meeting on September 17. All agreed ending discussion.
- Ms. Nelson concluded her presentation with the commitment to work with Karen O'Neil to explore VTAM language modifications to more efficiently resolve potential future challenges not originally contemplated in the latest version.

Load Forecast for N.E. Effecting RNS Revenue:

- Ms. Nelson discussed the impacts and practices employed by VELCO which uses load forecasts on an annual basis to generate estimated revenue figure for pooled transmission facilities under the ISO OATT. This impacts VELCO's revenue requirement under the 91 Agreement. Ms. Nelson explained if the load goes down, VELCO still has its revenue requirement to meet and it must now look to collect any shortfall through 1991 agreement.
- Mr. Dutton expressed a suggestion made by Mary Powell for the group to annually decide what the load parameter should be in an effort to cushion the risk of RNS proportions.
- Mr. Dutton stated VELCO has projecting revenue by decreasing ISO-NE's projections by five (5) percent over past few years. Mr. Dutton further expressed an opinion from Ms. Powell and Ms. Grimes, made at the August Board of Directors meeting for VELCO to consider using a further reduction in the forecast beyond the 5%. Mr. Dutton stated VELCO will continue use 5% unless the OC, after some time to evaluate, recommends a greater reduction in the forecast.
- Ms. Nelson provided the data that in 2011 VELCO was \$4M under and 2012 \$6M under forecast. These are significant shortages in VELCO's revenue requirements and the balance must be flowed through the 91 Agreement to the Vt distribution utilities.

- Mr. Nolan asked for clarification if using a different load forecast for Vt. planning vs. ISO-NE creates any risks.
- Mr. Renaud presented an analysis of four (4) yrs of TO network load data actual vs. forecast peak demands. The results show forecast load is consistently over estimated. Mr. Dunn mentioned ISO-NE would likely look to weather as the main contributor to the variation in the actual to forecast and this is the reason for the fluctuation.
- Ms. Nelson asked the OC to bring a recommendation to the next OC meeting in September so that VELCO can bring it to its Board in October. Operating and capital costs will be presented by VELCO at the September 17 meeting and be helpful in how to treat this revenue going forward.
- Mr. Johnson mentioned the DPS is aware of the challenge of forecasting load and they understand its implications on Vt ratepayers.
- Mr. Nolan suggested the Vt distribution utilities may be better off using the Itron data as the method to forecast load vs. the ISO's. Mr. Renaud responded this is the key point in discussions occurring with ISO surrounding what are the most appropriate assumptions to be used when developing forecasting methodologies, how to treat DR, SPEED and net metering. Mr. Renaud concluded with stating VELCO will continue to follow up with ISO-NE.

Safety Summit:

- Mr. Renaud reported a safety summit meeting is established for September 14, 2012 and will be held at the Double Tree on Williston Rd, Burlington from 9:30 to 3:00. Vision, objectives, and agenda have been generated. The kick-off will be high level to better understand the challenges and get management buy-in. The strategy is to get dialogue going, develop recommendations, and then seek to get acceptance from the CEO's. Mr. Renaud stated approximately 80 people from all levels are invited to attend including attendance by field personnel. The doors are open to everyone and utilities should bring whomever they feel would add value to the discussions.
- Mr. Wright mentioned the group has decided to keep the meetings to industry personnel.
- Mr. Dutton stated Commissioner Elizabeth Miller of the DPS is in full support and encouraged by the effort the utilities are making. She was not seeking an active role by the DPS at this time.
- Mr. Mason asked whether there is intent to establish uniform safety practices for all utilities in the state. Mr. Wright stated the group has no prescribed outcome or deliverables but the day will help define what's appropriate/needed. Mr. Dunn offered the program will take some time to develop the most useful/beneficial outcome. Mr. Wright discussed the outcome could be as simple as just creating an opportunity to keep awareness up front and center.

Vermont Gas:

- Mr. Dunn reported the archeological investigation is underway and we'll be able to provide more updates in the future.
- Mr. Dunn mentioned that Vermont Gas is looking to extend the pipeline beyond the original scope. The proposed extension will be to reach further towards Middlebury.

September OC Meeting:

- The September OC meeting will be held on Monday, September 17 at VELCO office in Rutland. This will be a joint CFO/OC meeting. The schedule is as follows: OC 10 to 11 and joint meeting 11 to 2.

Misc:

- Mr. Dunn reported on VELCO's strategic plan for 2012 – 2016. Thirteen (13) management team members met off site with the focus on making incremental changes from 2011. Many items on the 2011 plan were carried over to 2012. The mission statement was reworded to present its intent more clearly and separate into mission, values, and vision. Based upon VELCO Board comments the number of initiatives was reduced from 9 to 6. Process improvement is #1 and safety is a new focus given all the recent industry incidents. Essentially this year will be assessing the growth in many areas from substations to telecommunication plant, the successful operation, and forward looking challenges. Commitments to this strategic plan will assist VELCO in reporting and forecasting to its owners improving transparency and delivering on plans. NTA's will become a bigger part of VELCO's business which will improve financial performance.
- Mr. Dutton mentioned the biggest revisions to the strategic plan revolve around more emphasis on recognizing areas where VELCO can improve its performance (e.g., safety, reliability issues, etc.). It's about becoming better at what we do. Integrating the projects into the systems is key to VELCO's success on every front. The BOD was supportive of the plan and its direction. Mr. Johnson reported on the recent resolution adopted by the New England Governors and Eastern Canadian Premiers that directs the New England States Committee on Electricity (NESCOE) to undertake a coordinated renewable power procurement initiative. The total amount of power to be sought isn't yet set but NESCOE has release a draft work plan comments on which will be received until October 31, 2012. Commissioner Miller is leading Vt's participation on this effort that is expected to be released for proposals in December 2013.

Adjournment:

- Mr. Wright moved to adjourn the meeting and Mr. Dunn seconded the motion. The meeting adjourned at approximately 2:45 pm.