

VELCO Operating Committee FINAL MINUTES

August 21, 2014, 11 a.m. – 3 p.m.
Green Mountain Power, Montpelier

Participating members: Ken Couture (Green Mountain Power), Frank Etori (VELCO), Ken Mason (Lyndonville Electric Department, by phone), Ken Nolan (Burlington Electric Department), Kevin Perry (Vermont Electric Cooperative), Bill Powell (Washington Electric Cooperative), Chris Root (VELCO, Chair), Ken Weishaar (Stowe Electric Department), Jeff Wright (Vermont Electric Cooperative).

Other participants: VELCO staff including Brian Connaughton, Deena Frankel, Peter Lind, Dan Nelson and Michele Nelson.

<p style="text-align: center;">Next Meeting Sept. 18, 2014—11 a.m. VELCO Rutland</p>

Meeting opening

- Mr. Root opened the Operating Committee (OC) meeting at 11:05 a.m.

Safety topic

- Mr. Root presented a safety topic concerning the increased dangers of operating a motor vehicle now that students have returned to school. He urged vigilance in watching out for pedestrians.

Minutes approval

- Mr. Couture moved and Mr. Nolan seconded approval of the July OC minutes as posted. The minutes were approved without objection.

Pentachlorophenol issues update

- Mr. Connaughton reminded the group that the Public Service Board (PSB) had recently opened an investigation into the use of pentachlorophenol (penta) as a wood preservative in utility poles and he summarized the events that led up to the investigation. VELCO believes the contamination found at one site was from an old pole. Penta binds to, rather than propagates through soil, so this instance of contamination does unlikely represent a systemic problem.
- The utilities have until September 3, 2014, to comment on ANR's proposal for the process to be used in the investigation. The ANR proposal suggests using a collaborative working group to develop best practices. Although the proposal is not clear as to the need and amount of soil and water sampling, VELCO is concerned due to cost about the overall need and associated sampling to be required. The ANR proposal addresses the costs of the investigation but is not specific with regard to sampling.
- Mr. Wright said that he inferred from the hearing that the intent is not necessarily extensive sampling, but rather trying to determine how much penta is in place around the state.
- Mr. Root observed, based on industry practices, that the potential solutions that may be suggested are some kind of sleeve for the treated poles, which is not a highly costly solution.
- Mr. Connaughton said that Best Management Practices (BMPs) may not be practical for all utilities in Vermont. It may be an appropriate outcome to establish "foundational" or "base" BMPs everyone uses, with utilities establishing their practices based on the basic BMPs. A key question will be how far from the pole is too far to detect penta. Four feet may be a good starting point as this distance is based on the findings of published studies.
- Mr. Root pointed out that the penta issue is potentially very significant to the utilities and must be monitored closely and with active participation. It will remain on the OC agenda while the investigation is underway and VELCO will plan for continual communication.
- The working group proposed by ANR will have 12 members: four agency staff (Public Service Department, Agency of Natural Resources, Agriculture and Health); four utility representatives (VELCO, GMP, WEC, and a telecommunications company, likely FairPoint). The group will likely meet monthly. Utility participants will update all utilities after each meeting. Mr. Root observed that the whole country is going to be paying attention to the investigation because of the potential for significant impact on utility practice.

- Mr. Mason asked for clarification that the information he had was the most recent and that there would be only one telecommunications representative. Mr. Connaughton affirmed. Mr. Connaughton noted that he understands that the Monkton residents who had raised the penta issue to the Board have declined to participate in the working group.
- Mr. Nolan asked VELCO to be sure to keep everyone plugged in as the process unfolds. Mr. Connaughton speculated that the next comments would be on the sampling plan. Mr. Wright asked if the utilities should make one filing. That seemed to the group to be a good idea.
- A collaboration meeting among the utilities is scheduled for Wednesday, August 27.

Operating Committee website redesign

- Ms. Frankel reviewed the meeting slides pertaining to the revised VELCO Operating Committee website. In general, the functionality remains the same, with the majority of changes made to the format and function.
- She explained that CEII can only be accessed on the new site when a person is logged in to a valid account with appropriate permissions. All OC members have accounts established. Ms. Frankel provided login instructions.
- Mr. Root asked for clarification regarding what is public information on the site. Ms. Frankel stated that all OC materials are publicly accessible without login unless they are designated as CEII or otherwise confidential. In the latter case, a person must be logged in to view the material. It is important to note that, other than CEII and confidential materials, all OC materials, such as the minutes, are accessible to all without an account.
- Ms. Frankel asked for input from the OC members regarding distribution of meeting materials for monthly OC meetings via e-mail attachments versus sending only links to the files in an email. The links in the email would take recipients to the materials posted on the OC website. GMP, BED, Stowe, and VEC supported the decision to provide access to the files via a link and not attachments to e-mails. There was consensus with the remaining OC members on the approach to provide access to files via a link embedded in an e-mail. Outlook invitations would continue to be provided via e-mails to schedule meetings.
- The group expressed support for the website redesign and voiced the benefit of having historical records on the website.

Vermont System Planning Committee and long-range plan update

- Ms. Frankel reviewed the meeting slides pertaining to the 2015 Vermont Long-Range Transmission Plan (Plan) update. She reviewed the history of the development on long range plans, including past PSB and legislative actions that require a three-year update cycle and the inclusion of 20-year planning horizon. She stated that the 20-year horizon is the topic of ongoing discussion at the VSPC given rapid changes in the industry. Ms. Frankel further discussed the status of planning studies performed at ISO NE.
- Mr. Root discussed the Vermont/New Hampshire planning study, which is currently in its final stages of completion at ISO. Mr. Root proposed, and the members agreed, to present the findings of the study to the OC at the September meeting, with a specific focus on projects identified to be needed in Vermont.
- Ms. Frankel reviewed the proposed schedule for the Plan effort as well as interactions with the VSPC regarding load forecasting and participation from the associated distribution utilities and the public.
- Further information regarding load forecasting, including impacts associated with the integration of renewables, will be provided to the OC by VELCO Planning at an upcoming OC meeting.
- Ms. Frankel reviewed other activities underway at the VSPC and the benefits of broader participation by other utilities. Mr. Wright discussed the challenges of participation in VSPC meetings, including resource constraints and expanding time demands to participate in committees. Several ideas including adjusting the time and meeting locations were discussed. Ms. Frankel spoke to the ability to change the process and the overall governance documents.

Fiber system alternative cost

- Mr. Nelson reviewed the slides in the meeting package concerning the costs associated with the fiber system. He pointed out the way the costs agreed to among the regional utilities for the Shared Telecom Network (STN) are much lower than the utilities would pay in the open market. He pointed out that the

cost of all components on the open market would be an estimated \$3.6 million per month, but that, by owning the equipment, the budget is \$3 million annually. The carrying costs of fiber and lit fiber: \$11 million per year of which 80% is paid by region, 20% by Vermont (or approximately \$900k annually). Mr. Nelson summarized the annual operating cost of the VELCO Telecommunication networks including carry cost to be approximately \$3.9 million per year as compared to the equivalent circuit value of \$3.6 million per month.

- Mr. Nolan pointed out that not every utility gets the same value out of the equipment, based on whether or a given utility is using the capability.

Change in Return on Equity Rate

- Ms. Nelson reviewed the slides in the package concerning the change in the Return on Equity (ROE) rate. About 80% of revenues come from ISO-New England for costs associated with our transmission and general plant assets. Vermont is 8% of costs in N.E. though 4% of load.
- This summer we have seen the coincident peak lower than last year (2013), which throws off the budget for RNS revenues. The peak has declined throughout New England the last 3 months (May-July) versus the forecast, so the rate is not producing sufficient revenue to cover the revenue requirement. Change in rate compared to last year: \$85.32 last year, \$89.80 this year (June 1 year over year). New plant in service around New England is adding \$7.89/kW year. The primary driver of increases reflected in the forecast for 2014 rate recast is new plant in service.
- FERC has ordered an ROE reduction in a recent case. VELCO analyzed past two years to determine how to offset impact of ROE reduction and was proactive in planning an increase in equity to mitigate the impact. ISO OATT does not have any restrictions on debt/equity ratio.
- Mr. Etori stated that additional complaints are pending at FERC on ROE.
- Mr. Nolan asked what interest rate is applied to true-ups. There followed a discussion about how true-ups are calculated.
- Ms. Nelson pointed out that the ROE information is being shared in multiple forums—CFO, Board of Directors—and asked if the OC wanted this information. Mr. Wright said that he is glad to have this topic included because it is often shared only with CFO and CEO.
- Ms. Nelson made the connection between the strategic initiatives to our attempts to proactively address cost increases.

Power Accounting Update

- Mr. Etori presented the slides in the meeting package concerning the Bridge Energy Group (BEG) contract. He was asked what had caused problems with the work, to which he replied that the company hasn't done a good job of completing the required work. For them, this is the only settlement software they have developed.
- Mr. Perry observed that at least VELCO still has Oracle. Mr. Etori agreed that, though Oracle is outdated, it still works and staff is able to expeditiously make needed modifications to accommodate changes, such as Coventry Solar.
- Mr. Etori reported that all parties want to end the relationship but there is work that must be completed first. The parties have agreed BEG will complete the four items on slide 4.
- VELCO is issuing a request for proposal for a Transition Project Manager to aid in evaluating the BEG work and determining the best path to move forward. The bidders list includes OATI, Accenture, PWC, ARC and IBM.
- Mr. Nolan stated that BED is not comfortable with the path, but does not have an alternative. He recommends VELCO and the utilities should sit down as a group and determine what functions VELCO really needs to perform. For example, could we be using the ISO divisional accounting system and leveraging ISO to do the required changes. Mr. Nolan stated he is very frustrated that VELCO had a system that worked, dismantled it and put the functions on distribution utilities. He said he would like to be much more involved in the discussion going forward. Mr. Etori asked for his recommendation regarding whether to go forward with the Transition Project Manager RFP. Mr. Nolan said he was not sure why we are paying Bridge for the four changes. Mr. Root replied that VELCO tried to determine a way to avoid this work with BEG, could not avoid these four changes. The purpose of the Transition Project Manager is to

get advice from someone with no vested interest. Mr. Etori said the BEG contract has a provision allowing us to audit, but that Bridge would not do any further work while an audit is underway.

- Mr. Nolan stated that, once the Transition Project Manager is on board, a more extensive conversation should take place that considers what the scope of VELCO's work on power accounting should be, not just how to obtain a tool that performs the task as currently defined.
- Mr. Etori asked if the group objected to VELCO issuing the RFP. The group did not object.
- Mr. Wright asked where the power accounting scope conversation should occur. Mr. Nolan observed that, at some stages, a power supply expert is needed for the discussion. He reiterated that we may want to restructure how we deal with ISO and get VELCO out of the middle of power accounting.
- Mr. Root concluded that VELCO will ask the distribution utilities who they would like name to a steering committee for the project. Mr. Couture said it may be different people at different stages, e.g., role analysis stage versus the road map for the technology.
- Mr. Perry asked with the agreement on the disposition of the Kingdom Community Wind losses needed to be approved by the OC. He observed that the OC passed a resolution regarding correcting metering errors in the past. The KCW issue, however, affected only two utilities. Those utilities have reached agreement and the matter has been corrected. VELCO would administer the exchange of monies like any other metering errors. Mr. Perry asked whether the true-up agreement must go through the OpCom. Mr. Couture said GMP would prefer to bring it to OC for formal review even if this step is not technically required. The matter will be placed on the next OC agenda, which will also give everyone a chance to affirm that it does not affect any other party.

ISO-NE update

- Mr. Etori presented slides in the meeting package.

Vermont Gas Systems project update

- Mr. Lind presented the slides in the meeting package.
- Mr. Wright asked whether VGS must wait for conclusion of Board's statewide penta investigation before resuming work. Mr. Connaughton replied that only the small investigation specific to the VGS project must be completed. VGS will be doing some sampling that will be helpful to the larger investigation.
- Mr. Couture asked about the likely timeframe for VGS condemnations and how that comports with VGS's announced project timetable. Mr. Lind said it is unclear how the timeline will be affected, but that often filing the condemnation spurs negotiation to avoid need for the full litigation process. He pointed out that only 2% of VELCO's condemnations on NRP went to final order, though VGS's experience may differ from VELCO's due to a variety of factors.
- VGS same players who are working on the current phase are also before the Board on phase 2 and beginning of work on phase 3 (to go to Rutland). Hatched area on slide 3 will be their means of access. The VGS ROW will be fully mowed on two-year mowing cycle.
- Mr. Root stated that VELCO will have a field coordinator on site for safety much of the time. VELCO has provided the VGS staff and their contractor safety training for working on the VELCO rights of way. VELCO is expecting that there will be up to three crews operating at once next spring, requiring VELCO field coordinators on each site.
- Mr. Connaughton stated his concern that the delays on the condemnations will create some pressure for access to the ROW. VELCO will be using a pre-work scoping document with VELCO sign-off to be very clear about what VGS is doing on our corridor.
- VGS's goal is to complete construction in October 2015 in order to have the entire pipeline operational before the end of December 2015.

Other business

- VELCO has rolled out the new lock/key implementation. Mr. Couture reported that there have been a few initial bumps. In one case, a field person showed up in lobby to deliver keys which did not go to the right person initially (but eventually got there). Mr. Root said he would follow up.
- In September VELCO will provide default numbers for ARC flash.

Next meeting

- The next meeting will be a joint meeting with the OC and the CFO forum to review the budget. The meeting will be held at VELCO in Rutland.

Motion to adjourn

- Mr. Couture moved and Mr. Wright seconded adjournment, which was agreed without objection.