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Vermont Public Power Supply Authority

MINUTES OF THE BOARD OF DIRECTORS MEETING

August 1, 2018

Directors present (X indicates attendance in person, P indicates attendance by phone):

X	Evan Riordan, Barton	X	James Pallotta, Ludlow
X	Jonathan Elwell, Enosburg		Bill Humphrey, Lyndonville
X	Mike Sullivan, Hardwick	X	Craig Myotte, Morrisville
X	Carol Robertson, Hyde Park (phone until 10:30)	X	Stephen Fitzhugh, Northfield
	Vacant, Jacksonville	X	John Morley, Orleans
X	Meredith Birkett, Johnson	X	Reginald Beliveau, Swanton

Alternates present:

Others present:

VPPSA Staff	James Gibbons, BED	Jason Lorber, Aplomb

(numbers in bold type correspond with agenda item numbers)

- (1) The meeting was called to order at 9:40 a.m. at the Reservoir Restaurant located at 1 South Main Street, Waterbury, Vermont.
- (2) Chairman Beliveau asked if there were requests for changes and/or modifications to the current agenda. There were none.
- (3) Chairman Beliveau asked if there were public comments and/or individuals who would like to address the Board. There was no public presence and therefore no comments were made.
- (4) Director Morley made a motion to accept the minutes of the Regular Board of Director's meeting held on June 6, 2018. The motion was seconded by Director Birkett. Motion approved.
- (5) Director Fitzhugh made a motion to accept the Treasurer's report (as of June 30, 2018) as presented. Director Sullivan seconded motion.

VPPSA staff provided a brief update related to the operational budget vs. actual summary of VPPSA's operational costs. The financial results for the period ending June 30, 2018 indicate operational expenses being under-budget by approximately 8%. This includes payroll and



APPROVED

overheads that are under-budget by 6.2% and office supplies and expenses are under-budget by approximately 7.1%. For the year to date, revenues exceed expenses by approximately \$69K.

The motion was approved.

(6) The General Manager provide an update on BED/Stowe's sale of their ownership of the Highgate Converter Station. The General Manager started by providing the history of the original Highgate sale and then it was then noted that BED and Stowe have reached agreement to sell their share of the Highgate Converter to Nextera for a premium of 60% above net book value, plus a share of any capital upgrades made in the next 10 years. This is strictly a cash transaction.

The approval of this sale triggered a series of events for VPPSA and VELCO. VELCO began to evaluate the political, regulatory and financial risks of a third-party transmission owner in Vermont and VPPSA began fielding a number of questions about how this transaction compared to the original Highgate sale to VT Transco. After an internal evaluation of the transaction and then hiring an outside consulting firm to evaluate the transaction, the VELCO Management team held a special Board meeting on July 11th requesting approval to authorize Tom Dunn to exercise VELCO's right-of-first-refusal so that VELCO could purchase BED & Stowe's ownership of the Highgate converter. The VELCO Board approved this request and VELCO subsequently met with BED and Stowe and officially informed them of their intent to exercise the ROFR. Both BED and Stowe indicated acceptance of that notice and began discussion the procedural issues with proceeding in that direction. A copy of the purchase and sale documents (recently signed on July 31st) between BED/Stowe and VELCO was distributed.

Concurrently, in response to questions suggesting that the 60% premium and cash payment was a significantly better "deal" than VPPSA originally received, VPPSA staff evaluated what VPPSA could have expected if it had achieved the BED/Stowe transaction instead of the VT Transco equity approach VPPSA accepted. Several items were specifically noted:

1. VPPSA did receive a "premium" for its share of Highgate, it just came in the form of Transco equity rather than cash.
2. VPPSA successfully negotiated changes to Transco's Operating Agreement that allows VPPSA to purchase member equity for VPPSA's direct ownership. This concession carries forward indefinitely and benefits all the VPPSA members by reducing VPPSA's overall operating costs.
3. The primary drivers when evaluating the value of equity ownership is that, the equity will be owned for a least 20 years and the current distribution level will continue at that rate.
4. At the time of the original sale, VPPSA had outstanding debt to pay for upgrades at the converter that had to be paid off as part of the sale. A cash payment would have been reduced by the amount of the outstanding debt.
5. When VPPSA and VELCO sold a share of the Highgate converter to Stowe, Stowe had to pay \$1.8 million for that purchase. When looking at the amount Stowe is now receiving, one also needs to account for that fact that there was a cost involved that ultimately reduces the value that is being received.

APPROVED

Overall, under the cash transaction, VPPSA's Highgate participants would have received \$1.73 million; whereas, under the equity transaction the participants will receive \$4.75 million over the 20-year life and corresponding distribution payments. The two approaches cross in value between years ten and eleven, meaning that if the VPPSA Highgate participants and VPPSA holds its equity and receives the same distribution for more than 10 years, then the equity approach will provide to have been the better deal.

(7) The General Manager indicated that both the VPPSA staff and the VPPSA members were invited to meet with the Public Utility Commissioners on August 17th for an "informal" conversation about areas of unique concerns, comments and observations as municipal utilities. This invite requires that attendees RSVP and notes that only invitees will be allowed to participate.

The Board discussed who would be attending this meeting and topic areas that they thought should be addressed. The Directors indicated that the topics should include subject areas that are common to all the municipal utilities. It was noted that VPPSA should take the lead and it should be a formal structured approach. The General Manager indicated that he would put together a draft agenda to distribute to the Board.

(8) Director Beliveau provided a brief report on the Generation and Other Assets committee meeting that was held on July 11th. The primary focus of the meeting was to hear a presentation from Mr. Lucier (PAL) who described the results of the recent borescope completed at P10. It was noted that both units have seen no deterioration or degradation since the previous borescope completed in 2015. Mr. Lucier also clarified that there is no immediate need for active maintenance. The recommendations that were included in the printed reports were for preventative maintenance only (including replacing the buckets) and may be dependent on further information such as number of starts and runtime prior to VPPSA ownership. Mr. Lucier also described what it would take to complete a Hot Gas Path Inspection if VPPSA chooses to complete one. Director Morley questioned whether there would be lost revenue related to the repairs. It was noted that the repairs would require a system shutdown and therefore, market revenues would be reduced or diminished during this time. It was noted that the committee intends to review the reports in more detail and determine next steps at the next committee meeting.

(9) No further report on the Legislative and Regulatory Affairs Committee meeting was provided.

(10) The General Manager indicated that the next VELCO Board will be held in September. No further report was provided.

Director Myotte noted that the VELCO Operating Committee did not meet last month. No further report was provided.

APPROVED

(11) Other Business: The General Manager indicated that a certificate from the Governor was received that recognizes municipal lineworkers and the benefits they provide to Vermont.

(12) Jason Lorber from Aplomb Consulting was present to facilitate a combined VPPSA staff and Board retreat with the goal of reviewing VPPSA's strategic plan.

VPPSA staff began by reviewing the draft strategic plan and the process staff took to get to this point in development of the plan. The FY19 plan details were reviewed and the staff invited questions from the Board.

The Staff and Board broke into small groups to brainstorm and prioritize the plan activities to bring back to the larger group for discussion. The group discussed items that needed to be added and/or reprioritized.

There was a small group and then larger group discussions regarding how VPPSA has changed over the last several years, what changes people want to see in the next five years and what changes people want to see in the next year.

Mr. Lorber addressed the group to facilitate discussion around the level and timing of Board engagement in the strategic planning process and what is working well and what changes should be implemented for future planning processes and/or retreats.

The meeting was adjourned at 3:30 p.m.

Respectfully submitted,

Crystal L Currier

Crystal Currier, Secretary