

APRIL 2016 BOARD MINUTES

The regular meeting of the Bristol Tennessee Essential Services Board of Directors was held on Wednesday, April 20, 2016 at Noon at 2470 Volunteer Parkway, Bristol, Tennessee.

Board members present were Bryan K. Boyd, Larry Clarke, Michelle Denise, Patrick W. Hickie, Jr. and Gary McGeough. Others present were CEO R. Michael Browder, Director of Operations and Safety Kenneth King, Director of Management Services Tara McCall, Director of Accounting and Finance Lola McVey, Customer Relations Representative Leslie Blevins, Attorney C. Thomas Davenport, Tammy Childress and Andre Teague from the Bristol Herald Courier, Kevin Castle from WXBQ, Nate Morabito from WJHL and Maggie Smolka from WCYB.

Chairman Boyd called the meeting to order.

Revisions to the minutes of the March 2016 meeting were discussed. Revised March 2106 minutes will be presented in the April 2016 meeting for approval.

The CEO's Safety Report stated that there were no lost time accidents. The report also stated that the monthly safety meeting was on Arc Dangers and Protection. As of March 31, 2016, BTES had 904,665 safe working hours since the last lost time accident on November 17, 2009.

The Financial Statement for March 2016 was presented for review and discussion and filed for audit as submitted. Dr. Browder reported that demand charges for March 2016 were lower for that period than in the last several years. In March 2016 for the second month in a row, we sold more kWh than we purchased. The CEO reviewed increases in the number of cable, Internet and telephone subscribers.

Dr. Browder, CEO, reported that the Monthly Fuel Cost for the month of May decreased. The Monthly Fuel Cost is forecasted to increase slightly in the next few months.

For the next item of business, the CEO discussed the Tennessee Comptroller's Special Investigation. Since this was the first Board meeting since the release of the Comptroller's Special Investigation, and for community transparency, the Board of Directors welcomed the local media to the meeting to gain the true facts, figures and financial dealings with the Carina Technology procurement. Dr. Browder presented a detailed, step by step, summary of the Water Heater Program and transactions with Carina Technology. He presented and discussed a Financial Timeline showing what amounts were Board approved, actual expenditures and discounts (a copy of the "Financial Timeline" is attached as Exhibit A). Dr. Browder reviewed the progress payment, to whom payments were made and assured the Board that BTES is receiving all of the products they originally intended to get for less money than the Board approved. Dr. Browder reiterated that because of BTES' detailed involvement, BTES and its ratepayers have, in fact, received a demonstrable benefit from these transactions. In spite of concerns and difficulty over supplier stability, BTES has implemented its Water Heater Program in a manner that is just as financially sound as it was planned from the outset without which BTES would have lost in excess of \$1,000,000 per year demand savings and over 16,000 BTES customers would have lost maintenance of their water heaters.. TVA ended the Cycle and Save Water Heater Program for all local power companies but they agreed to operate the previous program for three additional years while BTES installed its updated, re-engineered Water Heater Program. Dr. Browder also indicated that BTES received \$6,000,000 buyout payment from TVA after TVA's withdrawal from the Water Heater Program. In addition, BTES' electric rates remain among the lowest in the Tennessee Valley, and the utility remains committed to improving its product offerings and providing reliable, safe and cost effective services for its customers.

Ms. Denise asked if the CEO has a relationship with someone that works at Carina. He responded that there was a person that he used to work with in Huntsville in the early 1970s that now works for Carina. The CEO was not aware that he worked at Carina until BTES started buying collars from them.

Ms. Denise then asked what the CEO's thought process was in putting the patent in his name instead of BTES? The CEO stated that when the patent was first filed, it was filed as inventors, with several engineers from Carina, with 8-10 names on the patent. The actual intent of Carina was for everyone to assign their interest in the patent over to Carina. As Carina began to be less stable, the CEO wanted to protect BTES and didn't assign his interest to Carina. Carina developed the software to make the switch work and the CEO has no right to any of that. The CEO stated that Mr. Davenport has documentation for source code, software and manufacturing information in escrow in his office, but BTES does not have the right to use it unless Carina goes bankrupt or otherwise default on their agreement.

Ms. Denise said why was the CEO concerned about taking his name off of the patent and putting it into BTES' name? How would this cause Carina harm? The CEO stated that Carina had worked to develop the product and if it was sold to someone else, someone could compete with them. He stated that he doesn't want to continue to own the patent and has received no financial benefit from it.

Ms. Denise then stated that it appeared that after the initial transaction took place, that there were four years between money changing hands and the actual delivery of parts. What happened during that time, was the project put on the backburner? The CEO stated that during that time, BTES was receiving product that TVA had paid for. There were numerous product improvements during this phase and BTES continued to work with Carina to make the product work like we wanted it to. He stated, "We wanted to provide our customers with good service at a good price."

Ms. Denise then referred to the Comptroller's report on page 8 that states "Despite the fact that Carina was no longer producing the products and most of the products had not been manufactured or delivered to BTES, the BTES director of accounting and finance insisted that Carina earned the \$1,911,000 "profit" the company received as a result of the loan reduction because Carina officials had done all that was expected." What does that mean? The CEO stated that when BTES buys the devices from Carina, one amount is for parts, one for manufacturing and the rest is for Carina. BTES does not have the authority to make the devices but Carina has the full authority. If they go bankrupt or otherwise default on their agreement BTES has the right to build the product but does not have the right to build those today. BTES is retaining all revenue to ensure that they are being properly applied first to parts and manufacturing then to absorption of the prepayment agreement, discounts negotiated and tools and certifications.

Mr. McGeough stated that he understood that Carina's financial condition was the reason for handling all the money for parts and manufacturing. He stated, "BTES wanted to make sure they got the product and I'm ok with that".

Mr. Clarke asked how BTES was going to pay for the WISE 2 units approved by the Board in February 2016. The CEO stated that BTES will pay for the parts as received and the manufacturing as performed. Any remaining amounts will be absorbed by the discount and Advanced Payment Agreements and any remaining funds will be paid to Carina.

Ms. Denise then asked, why would we send public funds to someone who was not trust worthy and a risk? The CEO stated that when BTES first started doing business with Carina, they delivered the product and got paid in the normal course of business. It wasn't until the financial crisis in 2008 that they lost their line of credit and things started getting tight for them. BTES still could not buy equipment like this anywhere else. BTES wanted the best product and the best return so they obtained agreements with personal guarantees of delivery. As time

went on BTES reevaluated the situation and decided to manage all the money. BTES paid for parts and manufacturing and the balance was absorbed by the prepayment.

Mr. McGeough stated that when TVA backed out of the program they had to get creative to continue. BTES needed to keep the supplier going and since they were in financial stress, had to do the best they could.

Ms. Denise then asked if the CEO had any regrets about doing business with Carina. The CEO stated that he didn't regret it. BTES still has a good program, but wouldn't want to go through the process again. He stated that he gets paid to do a job and he felt that it was a good job. He said that he did not keep everyone informed as well as he could have and did not document as well as he could have. He was glad for what we have done for our customers.

The CEO stated that BTES has saved over a half of a million dollars in software maintenance fees to date. In going forward it could be millions of dollars that BTES will save.

Mr. Clarke asked if TVA will get back in the water heater program. The CEO stated that they have projected they will not need any additional generation so they are not spending any money on any project to gain capacity. They will not pay BTES to take the load off, but because BTES is taking the load off peak, they are saving money on their wholesale power cost. This savings to customers amounts to over \$1 million a year.

Mr. Boyd referred to a Washington Post article about using the water heater as a battery in the future and BTES is able to do that now. The article was talking about the future and BTES is doing it every day. Our BTES switches are already doing what these people are just talking about.

Mr. McGeough talked about his career as a certified purchasing manager in the aerospace industry. He stated that in his dealings with small businesses and highly technical products, he had similar situations and stated he would have done the same thing as BTES did. As the newest board member, he had read a recent publication from APPA and asked the CEO for a summary of what BTES was doing in relation to the articles. After reading the information the CEO provided, he concluded that BTES' low rates, fiber optic system and water heater program, among other things, were a result of good business decisions. When BTES gets to the goal line, it is below budget and works.

Ms. Denise asked, that in striving for excellence, there is a time to pat yourself on the back and a time to ask tough questions—as CEO of a public utility, who do you answer to? The CEO stated that he answered to the Board of Directors. She then stated that he had used rate payer funds and didn't inform the Board of what was going on. The CEO stated that he had attempted to. The Board approved the purchase order and they were informed of the prepayment. He said his intention is to make the Board aware of things they need to be aware of and to also inform them of anything they want to be aware of. Going forward he plans to inform the Board sooner and document decisions earlier.

Ms. Denise stated that her background is in private business and in looking at it as if it were her money being used, she might have a hard time with those actions. She asked what behaviors or ways of doing business is going to change so we can earn citizen and rate payer trust back? The CEO responded, by providing more detailed information to rate payers, informing them about our low rates, the level of service they get and how safe it is. They haven't lost anything, haven't lost any money anywhere. They have ended up with a product that was less than BTES agreed to pay for and the real story needs to be communicated to them. He understands his fiduciary duty and that is the reason he worked to keep \$1 million a year for our customers.

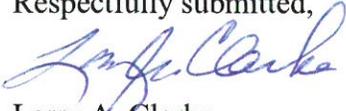
Mr. Boyd stated that the Board had taken action to approve financial transactions over \$250,000, developed a patent policy and provide more details in the minutes.

Board Comments:

Pat Hickie asked that the draft Auditor's Report be sent to the Board when received.

There being no further business to come before the Board, the meeting was adjourned. The next meeting is scheduled for **Friday, May 20, 2016 at 8:00A.M.**

Respectfully submitted,



Larry A. Clarke
Secretary-Treasurer