

JUNE 2016 BOARD MINUTES

The regular meeting of the Bristol Tennessee Essential Services Board of Directors was held on Wednesday, June 29, 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 Engineering Clayton Dowell, Director of Management Services Tara McCall and Director of Accounting and Finance Lola McVey.

Chairman Boyd called the meeting to order.

Minutes of the May 2016 meeting were approved as mailed.

The Financial Statement for May 2016 was presented for review and discussion and filed for audit as submitted. Dr. Browder reported on sales statistics for the Electric Business Unit and stated that operation and maintenance expenses are less than budgeted. He also reported that the number of cable, Internet and telephone customers increased but the number of services has decreased. There was also discussion about increased Internet usage in the future and how we are preparing for the increased demand.

The CEO's Safety Report stated that Lineman Matthew Proffitt had an accident on June 13, 2016. Ms. McCall reported that he is being treated at JMS Burn Center in Augusta, GA which is the largest burn center in America and has one of the highest survival rates in the country. He is expected to be there approximately two months.

Dr. Browder, CEO, reported that the Monthly Fuel Cost for the month of July increased but was lower than the last two Julys. The Monthly Fuel Cost is forecasted to decrease slightly in the next few months.

In other business, the CEO presented a Contract Modification Policy. Coulter & Justus, PC recommended the adoption of a contract modification policy in the Schedule of Findings and Responses in the June 30, 2015 CAFR. After discussion, Mr. Clarke made a motion to adopt the policy and Mr. Hickie seconded. The motion passed. After the adoption of this policy, both recommendations in the Coulter & Justus, PC Schedule of Findings and Responses have been addressed.

For the next item of business, the CEO reported that the Ethics Policy was being reviewed for a notification procedure for the Board to be notified by the Attorney upon potential conflict of interest reviews. The revised policy will be presented at the July Board meeting along with a proposed Conflict of Interest Statement for Board approval.

In other business, the CEO presented a recommendation to purchase relaying equipment to upgrade our Bluff City Primary substation and the Bluff City District substation for a total of \$116,795. These upgrades are beneficial in increasing our reliability and providing additional functionality to our system operations. Mr. Hickie made a motion to purchase the relaying equipment, Mr. Clarke seconded the motion and the Board approved it.

For the next item of business, the CEO presented a proposal to purchase an air conditioning system for the head end from Air Movers in the amount of \$50,380. Equipment in the head end produce heat and as we have added equipment, the heat load has increased. Mr. McGeough made a motion to purchase the air conditioning system, Mr. Hickie seconded the motion and the Board approved it.

In other business, the CEO recommended the approval of the renewal of the annual support and extended hardware warranty for the Class 5 telephone switch from Metaswitch. After discussion of the support and service we receive from Metaswitch, Mr. Hickie made a motion to approve the recommendation, Mr. Clarke seconded and the motion passed.

In other business, the CEO presented highlights from the 2016-2017 Strategic Business Plan. He reported:

- The Bethel Drive transmission line project is complete.
- Customer outage minutes for calendar year 2015 were 34 – which is the lowest year to date.
- Bad debts were .07% of revenue which is less than our goal or industry average because of our deposit policy. Over 89% of our residential customers are not required to have a deposit.
- We are continuing to make heat pump and energy savings loan to promote more efficient use of electricity.
- Our subdivision agreements promote the use of electricity using inspected heat pumps and load managed electric water heaters.
- Our rates are the lowest in this region and among the lowest in the TVA territory.

He presented the five year capital plans and cash flow statements for the Electric Business unit and the Advanced Broadband Business Unit. There was discussion about the net income and cash requirements for the next five years for the Electric Business Unit. The 2016-2017 Strategic Business Plan will be presented for approval at the July Board meeting.

For the next item of business, the CEO presented the Memorandum of Understanding between BTES, Carina and the CEO regarding the Carina patent. This document is the result of the Board and CEO doing their due diligence to protect the interests of BTES and its customers. Mr. McGeough reiterated that since he is new to the Board he reviewed the Carina transactions and the Comptroller's report to have a thorough understanding of the entire process. Looking at those transactions in light of his business experience, BTES did what was necessary to complete the design, engineering, production and field testing of the WISE switches for the benefit of BTES and its customers. BTES did its due diligence and at all times was protected by legal documents such as the Prepayment Agreement and Advance Payment Agreements. This was the only way BTES could get the water heater control device they wanted and needed with the functionality for the largest savings possible on the TVA power bill and for the convenience of the customer. Mr. Clarke made a motion to accept the Memorandum of Understanding and Mr. Hickie seconded. The motion passed.

In other business, the CEO presented the Reliability Standards Memorandum of Understanding between BTES and TVA formalizing TVA's authority to serve as our North American Reliability Corporation (NERC) registered entity for all NERC functions applicable to TVA and BTES. Mr. Clarke made a motion to adopt the Reliability Standards Memorandum of Understanding, Mr. McGeough seconded and the motion passed.

The CEO's report:

- Mr. Dowell provided an update on the Mobile Substation. The BTES team met with the manufacturer Delta Star to finalize design details. We are scheduled to receive the final product in November.
- Mr. Dowell also provided an update on the Video Production Trailer. The trailer has been delivered to Knoxville. The trailer is being customized to our specifications and will be ready in early August. Dr. Browder reported on the status of the contracts to broadcast live football games for East and Central High Schools in Sullivan County and Bristol Tennessee High School.

- Ms. McVey reported that almost all parts have been ordered for the WISE2 switches and some parts have already been received at Heartland. All parts should be ordered in the next week.
- The CEO reported that we are working with SEDC and Carina to get a Meter Data Management System in place to begin offering prepay. We have been testing remote connects and disconnects using the collars which has been successful. We hope to have the prepay system operational in the winter.
- The CEO reported that the TVA InvestPrep grants for BTES property located in both the Bristol Industrial Park and the Bristol Business Park had not been approved. We will apply again when funds are available.

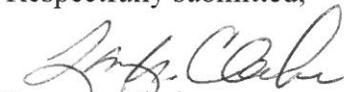
Board Comments:

Mr. Clarke inquired about the status of the Food Country Contract for Lighting and Power Service. The ten year contract still has nearly two years remaining. Dr. Browder reported that we are obligated by TVA to honor all contracts. TVA audits BTES to make sure we are complying with all contracts. Dr. Browder will contact Food Country to explain.

Mr. Hickie stated that we have questions about contracts on a regular basis and suggested an addendum to the contract that clearly states the terms of the contract.

There being no further business to come before the Board, the meeting was adjourned. The next meeting is scheduled for **Wednesday, July 20, 2016 at Noon.**

Respectfully submitted,



Larry A. Clarke
Secretary-Treasurer

