

MINUTES OF MEETING OF THE CLEVELAND UTILITIES BOARD

January 22, 2015

The Board of Public Utilities met at 3:00 p.m. at the Tom Wheeler Training Center. Present were the following: Aubrey Ector; Chairman; Eddie Cartwright, Vice Chairman; Tom Rowland, Mayor; Chari Buckner, Cleveland Utilities Board; Joe Cate, Cleveland Utilities Board; Ken Webb, President/CEO; Amy Ensley, Utility Board Secretary; Marshall Stinnett, CFO; Bart Borden, Electric Division VP; Craig Mullinax, Water and Wastewater VP; Walt Vineyard, Information Technology VP; Tim Henderson, VP Administrative Services; Jan Runyon, Assistant VP Administrative Services; Steve Barger, Supervisor of Environmental & Regulatory Compliance; Bill Johnson, TVA President/CEO; Odell Frye, TVA Southeast District Customer Service General Manager; Mike Shreve, Founder of Cleveland Community Coalition; Dave Carringer, Founding Member of Cleveland Community Coalition and Owner of Abundant Living Health Food Store; Dr. Brett Spradlin, a Physician of Natural Health and Founding Member of Cleveland Community Coalition; Eileen Garrett, Graphic Artist, Mother and Founding Member of Cleveland Community Coalition; Rev. Todd Stevison; Rick Norton, *Cleveland Daily Banner*; and Paul Leach, *Chattanooga Times Free Press*. Following the Pledge of Allegiance to the American Flag, Rev. Todd Stevison, delivered the invocation. Todd is the Campus Pastor at Candies Creek City Church and is a teacher and assistant football coach at Bradley Central High School. Todd's father, Gary Stevison, retired from Cleveland Utilities several years back. Gary served as the Electric Storeroom Manager.

PRESENTATION BY TVA PRESIDENT/CEO BILL JOHNSON

President/CEO Webb introduced and welcomed TVA President/CEO Bill Johnson. This was Mr. Johnson's second visit to Cleveland Utilities. In September 2013, he met with a group of administrative staff members. Johnson has served as TVA's President/CEO since 2012 and has concentrated on better streamlining the agency's operations, cutting costs, decreasing debt and advancing partnerships with the public power providers. Johnson stressed his main objective is to provide good, competitive rates and reliable power, while being the best partner possible.

Johnson recalled a conversation with Webb, calling it a "seminal experience." In the conversation, Webb asked if anybody at TVA truly understood the impact the organization's decisions had on local utility customers. Johnson said, "The truth is they are your customers, but they are all our people. That really focused my view on what we're supposed to be doing." Producing low cost, reliable, affordable, ever-cleaner power, a good environment and economic development is the mission TVA strives to remain true to.

Johnson then touched on TVA's rates. The industrial rates are in the lowest quartile in the country, and the residential rates are in the second quartile. TVA is working hard to make sure the rates remain reasonable. The capital budget for

this year is the biggest in the corporation's history at \$3.5 billion; however, this will be the last year of big capital spending. It will be reduced by half next year, and about half again the following year. The funds are being spent to complete projects and modernize the system to make sure the electricity is available and reliable.

Following Johnson's address was a Q&A session, where board members questioned the future of nuclear power, coal and challenges facing TVA. Johnson advised he is a big proponent of nuclear, cost efficiency being one of the reasons. In response to coal, he expects a decline due to environmental concerns. When discussing challenges, Johnson was quick to say the biggest challenge is internal, focusing on what TVA is supposed to be doing and doing it efficiently. He also pointed out there are always external challenges added in the equation.

At the close of the presentation, Webb thanked Johnson for his address to the staff and board members and the partnership between CU and TVA. In addition, Webb presented Johnson with a cap that read, "CU, Cleveland Utilities."

MINUTES OF JANUARY 6, 2015

On motion by Eddie Cartwright and seconded by Joe Cate, the Board of Public Utilities voted unanimously to approve the January 6, 2015, minutes as written. Webb advised this is the third set of minutes that have been prepared by Ensley, and he thinks she is doing a great job.

MANAGER'S UPDATE AND ANNOUNCEMENTS

Offices Closed

Cleveland Utilities will be closed Monday, February 16, 2015, to observe Presidents' Day. Regular emergency and standby service will be maintained. The emergency number is the same as the regular office number.

FY2016 Budget Process

The budget process for FY2016 has begun. A called meeting may be required in March to review the budget prior to the City Budget Retreat. Also, in order to have a rate adjustment in electric effective July 1, the proposal must be sent to TVA by March 31. The plan is to submit the numbers to TVA prior to budget approval. Once the TVA process plays out and the two processes are reconciled, approval for the budget will be requested from the Utility Board and City Council. The proposed adjustment will, as a result of the cost of service study by consultant Chris Mitchell, adjust customer charges, which are designed to cover fixed costs. It will also be proposed to adjust energy charges in an amount sufficient to cover any projected variable costs. Other changes on the horizon include those occurring in October 2015 as a result of TVA changes to the wholesale rate structure. These changes will, as is usual, be passed-thru to the retail customer.

DIVISION REPORTS

Financial

Marshall Stinnett reported on the following:

1. A graph tracking the residential kilowatt-hour cost from February 2011 through February 2015 was reviewed. The rate for residential customers for February will change to 8.856 cents per kilowatt-hour, a decrease from last month's rate of 8.917 cents. This rate change is driven by TVA's Fuel Cost Adjustment. As a continued trend, Cleveland Utilities will pass the TVA fuel cost rate adjustment to its consumers.
2. The December 2014 financial and statistical statements were presented to the Utility Board. In the electric division, the cost of purchased power as a percentage of retail sales was 79.8 percent for the month of December. For the year to date, this percentage is 83.7 percent as compared to a budgeted percentage of 83.2 percent for FY2015. Electric sales revenue for December 2014 totaled \$7,915,339, which was offset by purchased power of \$6,319,059. This resulted in an operating margin of \$1,596,280 compared to a budgeted margin of \$1,271,176 for the month of December. These revenue numbers were driven by a customer base of 30,386. Operating expenses for the month were \$1,561,816. The net income for the month was \$149,022. This is compared to a budgeted net loss of \$51,610.
3. For December 2014, water sales revenue was \$952,626. The division served 30,501 customers during the month of December. Operating expenses for December were \$1,158,519. The water division recorded an operating loss of \$130,944, which is compared to a budgeted operating loss of \$22,794.
4. For December 2014, wastewater treatment revenue was \$800,461. The division serviced 18,115 customers during the month. Operating expenses for the month were \$826,708. The wastewater division recorded an operating income for December of \$118,123, which is compared to a budgeted operating income of \$48,537 for the month.
5. A spreadsheet was reviewed for Key Performance Indicators (KPI), which is part of the Strategic Plan. Five critical ratios for all three divisions were reviewed: 1) Revenue per Operating Unit, 2) Debt to Total Assets, 3) Current Ratio, 4) Earnings before Interest & Taxes per Revenue Dollar, and 5) Total Operating & Maintenance Expense per Operating Unit. In addition, Bond Coverage Ratios were provided. All three divisions are compared to benchmarks within each industry. The electric division is compared against TVA Municipals of like size in the same revenue class and also against TVA Municipals excluding the Big 5 (Knoxville, Chattanooga, Huntsville, Memphis and Nashville). The water and wastewater divisions are compared against the AWWA industry average.

Chairman Ector thanked Stinnett for providing the indicators on the health of the utility, particularly compared to peer organizations.

Electric Division

Bart Borden reported on the following:

1. In reference to the Harrison building renovation, a large quantity of material has been moved into the storage area of the building, including continuous conduit reels used for boring operations. The conduit was deteriorating due to UV and weather exposure on the lower storage yard.
2. In reference to the design to relocate 69/13.2 kV lines for TDOT's APD-40 Interchange at Stone Lake Road, the easement contractor reached an agreement with two of the five property owners and paperwork to purchase has begun. The other three easements are still in negotiations.
3. The project for Phase II of Timber Creek Subdivision is moving forward. The operations department completed the installation of the primary and secondary conduit systems in the new phase of this development.
4. Final cost for the breaker replacements, relay panel replacements and power transformer bushing replacements at the East Cleveland 161/69 kV substation project is \$508,626.56.
5. Graphs were reviewed representing system peak information. An all-time system peak of 249,511 kW was experienced on January 30, 2014, with one of the major industries offline. To put this increased peak demand into perspective, January 2014 peak was 65,667 kW greater than January 2013, and exceeded the previous all-time winter peak by 16,965 kW. This was very much weather related due to a 5 degree morning. The summer peak for 2014 occurred August 20 on a 95 degree day and was 204,890 kW. Cleveland Utilities all-time high summer peak is 229,306 kW and occurred in August 2007 on a 103 degree day. Another graph was reviewed representing the highest peak for the year, regardless of the season.
6. A comprehensive year-end Reliability report was presented:
 - The ASAI (Average Service Availability Index) demonstrated power was on for 99.9877 percent of all CU customers in 2014, compared to 99.9898 percent in 2013 and 99.9886 percent in 2012.
 - The CAIDI (Customer Average Interruption Duration Index) reviewed all the interruptions on CU's system. CU experienced 53.97 minutes per customer average outage in 2014, compared to 61.1 minutes in 2013 and 56.5 minutes in 2012.
 - The SAIDI (System Average Interruption Duration Index) disclosed the average minutes interrupted per customer for all CU customers totaled 64.454 minutes in 2014, compared to 53.5 minutes in 2013 and 60.25 minutes in 2012.
 - The SAIFI (System Average Interruption Frequency Index) demonstrated the number of long interruptions per customer for all CU customers. This total was 1.194 for 2014, compared to 0.875 in 2013 and 1.07 in 2012.
 - A pie chart was reviewed for total outages by causes. Equipment attributed to a large portion of outages during 2014.
 - In addition, graphs for the four indices were shown for each month in 2014. The actual percentage was compared to the moving average.

Borden advised this is part of the Strategic Plan to address Reliability. Further details will be discussed at a later date explaining how the indices will be used to address issues on CU's system by circuit.

7. An update was presented in regards to the first phase of the LED lighting upgrades at the Power Service Center. This phase has been completed and the parking and storage yard areas have been converted to LED lighting. A total of thirteen 400-watt high pressure sodium (HPS) flood lights, one 250-watt HPS flood light and two 1,000-watt HPS flood lights were removed, and fourteen 240-watt LED flood lights and two 325-watt LED flood lights were installed. The five wall pack lights on the front of the building were replaced with LED bulbs. Lighting levels have improved drastically; maintenance and energy costs will be reduced significantly as well.
8. Negotiations with Ringgold Telephone Company to lease fiber have been placed on hold, pending the outcome of the Telecommunications Study. Staff wants to be assured adequate fiber capacity is maintained for all possible options.
9. An update was presented on traffic lighting:
 - Cleveland Utilities Traffic Signal Coordinator attended a pre-construction meeting for the I-75 Exit 33 ramp improvements by TDOT. Construction on the southbound ramp began first and started in late December. Traffic signals will be installed at both ramp termini.
 - A number of communication issues have been experienced with the traffic intelligent system. Most are related to cold temperatures and one specific type of modem. During December, this included problems on Paul Huff Parkway, Keith Street and the downtown area. Portions of Keith Street and the downtown area have been restored, while Paul Huff Parkway and Keith Street between 20th Street and Willow Street continue to experience communication errors.

Water Division

Craig Mullinax reported on the following:

1. The project for the second floor remodel including the control room at the Filter Plant is progressing and on schedule. P&C Construction began demolition of the facilities, which includes the old control room, bathroom and kitchen. Partial demolition to the control lab has been completed, and the old tile floor has been removed. The Filter Plant is still in operation during this process. The operators and SCADA system were relocated to a different location in the building.
2. Phase II of the 20-inch and 24-inch water main extension from Tasso Lane, NE to Benton Pike is in the final stages; approximately 5 miles of water main was installed, and crews are currently working on purging air from the line. Caldwell Paving has completed paving of the streets; striping of the pavement still remains.

3. Plan approval was received from the SRF for the \$2.5 million AMR/AMI Water Project. The project is ready to bid. J. R. Wauford and Company will be assisting with the bidding process. Staff expects to have a recommendation for Utility Board consideration in February or March.
4. Engineering staff will be designing the following Water Line Replacement projects to be bid in February:
 - The area of Wesdell Lane, Park Avenue, Steed Street and Sharon Drive. The 2-inch galvanized lines will be replaced with 6-inch PVC lines.
 - The McDonald School Road area, where an estimated 3,600 feet of water main will be replaced.
5. Engineering staff is working on the 2010 Annexation Area 2 water system improvements. This project involves the north and south sides of APD-40 from I-75 to South Lee Highway where approximately 3,000 feet of water line will be replaced. Also included is additional extension of 6-inch water main and installation of 7 fire hydrants on the north side and 6 fire hydrants on the south side.
6. The generator for the Harrison Pike pump station has been delivered and set on the pad. The electrical contractors are expected to be onsite next week to complete the wiring and place the generator in service.
7. Engineering staff has approved plans for the Old Harrison Pike Apartments. This development will consist of two quadraplexes and 231 feet of 8-inch sanitary sewer.
8. Developments under construction are:
 - Timber Creek Subdivision, Phase II, located on Peach Orchard Hill Road
 - Silver Springs, Phase III, located on Old Freewill Road
 - King's Cove Subdivision located on King Den Drive
 - The Haven at Glenwood Drive

The water main and sanitary sewer have been installed at all of the above projects. Cleaning, bacteriological testing and testing of sewer mains is currently being conducted. One project under construction that will be discussed in more detail next month is The Barker Hunting Crossing at Paul Huff Parkway and Georgetown Road. Ron Barker is the developer. Facilities will include a new McDonald's restaurant and a Weigel's convenience store.
9. Work is progressing on the Wastewater Rehabilitation Project:
 - Sections have been finalized for rehabilitation in the Wildwood Avenue & Inman Street area. Project plans and specifications have been sent to the printers. Once printed, the plans will be sent for approval.
 - AITC has rehabilitated 16,900.5 feet of pipe for the Basin 31-45 & 10-36 Rehabilitation Project. In addition, 38 point repairs have been completed at various locations, and 17 manholes have been lined.
10. Facilities Maintenance is working on the following projects:
 - Breckinridge Booster Station rehabilitation

- Cleveland Filter Plant exterior piping painting
 - Feasibility Study to install a generator at the Cleveland Filter Plant
11. The meter department set 37 meters through December 2014, compared to 22 for December 2013 and 14 for December 2012. Of the meters set in December 2014, 17 were for single family homes, 15 were for townhomes, 4 were for apartments and 1 was for a commercial building (Doctor's office at 3470 Ocoee Place, Suite 101).

OLD BUSINESS

Telecommunication Study Recommendation

Walt Vineyard presented an update on proposals received for the telecommunications study. The evaluation team comprised of Webb, Borden, Stinnett and Vineyard completed evaluations on the two proposals received. The last feasibility study was conducted in 2008 by Uptown Services at a cost of \$50,000. Cleveland Utilities elected to not pursue a telecommunications operation at the time of the 2008 study.

In this RFP, the team evaluated proposals from two firms: Uptown Services of Boulder, Colorado, and Kersey Consulting Services of Jackson, Tennessee. Uptown Services submitted a cost of \$59,000, and Kersey Consulting Services submitted a cost of \$53,555, for a difference of \$5,445. Neither bid includes travel expenses, which are estimated to be \$3,500 to \$5,000. Each proposal was evaluated based on qualifications, experience working with Tennessee municipal electric systems and Tennessee state laws, experience with financial modeling and allocations, experience with Fiber to the Home design and implementation, marketing methodology and pricing.

Based on qualifications, vast experience in design, financial modeling and marketing, along with familiarity of Cleveland Utilities' system and company, the evaluation team feels the best consultant for the project is Uptown Services. Vineyard advised it is the recommendation of the committee that Uptown Services be selected to conduct the telecommunications feasibility study. Approval is being requested to enter into final contract negotiations with Uptown Services, which will start the process of the feasibility study.

On motion by Mayor Tom Rowland and seconded by Eddie Cartwright, the Board of Public Utilities voted unanimously to authorize the committee to finalize contract negotiations with Uptown Services.

NEW BUSINESS

Approval of Purchase Order with Southeast Industrial Development Association

On motion by Chari Buckner and seconded by Mayor Tom Rowland, the Board of Public Utilities took action to approve a purchase order with Southeast Industrial Development Association (SEIDA) in the amount of \$50,978 for 2015 membership dues. Joe Cate abstained from the vote. This is an annual expenditure for an industrial development program by Local Power companies, and the program is

managed by the Southeast Tennessee Develop District in the area. TVA reimburses CU for 50 percent of the amount requested. 65 percent of the total is budgeted for regional initiatives, and the remaining 35 percent is returned to CU for local industrial development initiatives.

Check Signing Authority

On motion by Eddie Cartwright and seconded by Joe Cate, the Board of Public Utilities voted unanimously to approve Amy Ensley as an authorized check signer for CU's accounts. Connie Cooke was an authorized check signer before she retired, and this motion is needed to add Amy Ensley to the list. All Cleveland Utilities' checks require two signatures.

Presentation Regarding Fluoride in Drinking Water

Founder Mike Shreve and members of a new nonprofit organization, the Cleveland Community Coalition, distributed literature to Board Members and staff containing information on various aspects of water fluoridation. The group asked the Utility Board to consider removing fluoride from the water supply. This coalition was formed with the intent of identifying and pursuing community projects that enhance quality of life and to make Cleveland an even better place to live.

The members presented information with reasons supporting their appeal. Some of the thoughts include ideas that fluoridation is an outdated practice, unnecessary and potentially harmful.

CU obtains water from other sources, which complicates the matter. The water that comes from Eastside Utilities, Hiwassee Utilities Commission and Savannah Valley Utility District already contains fluoride; CU adds fluoride to water received from Waterville Springs and the Filter Plant.

Cleveland Utilities has been adding fluoride to the water supply since 1952. Many have questioned the need for water fluoridation since inception. Some systems have, in fact, stopped water fluoridation. Webb said, "It is an emerging issue; it's an issue that we will be more than happy as a staff to take a look at." It is estimated to cost \$15,000 to \$20,000 per year to add fluoride to CU's water supply. Board members and staff all agreed to review the information and conduct further research on the matter.

OTHER BUSINESS

Future Board Meeting Dates

Following is a list of future board meeting dates to be held at 3:00 p.m. at the Tom Wheeler Training Center:

February 26, 2015	Thursday
March 26, 2015	Thursday

Amy Eskley Utility Board Secretary

Amy Eskley Chairman

3/4/2015
(Date)