



MINUTES OF MEETING
CLEVELAND UTILITIES BOARD

April 23, 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; Bart Borden, Electric Division VP; Craig Mullinax, Water and Wastewater VP; Tim Henderson, VP Administrative Services; David Orr, Customer Relations Supervisor; Rev. Chris Rouse; and Rick Norton, *Cleveland Daily Banner*. Following the Pledge of Allegiance to the American Flag, Rev. Chris Rouse, Associate Pastor at Wesley Memorial United Methodist Church, delivered the invocation.

MINUTES OF MARCH 26, 2015 and APRIL 7, 2015

On motion by Mayor Tom Rowland and seconded by Eddie Cartwright, the Board of Public Utilities voted unanimously to approve the March 26, 2015, and April 7, 2015, minutes as written.

MANAGER'S UPDATE AND ANNOUNCEMENTS

TDEC Compliance Inspection Results

At least once every 3 years, CU is required to have their underground storage tanks for gas and diesel inspected. One of these inspections was recently conducted, and a letter was received from TDEC stating no violations were discovered. President/CEO Webb recognized Steve Barger, Dewayne Harris, Rick Ross, Kirk Gobble and Dean Watson for their diligent work on recordkeeping and monitoring of these tanks.

Arbor Day Celebration

Cleveland's local Arbor Day Celebration will be held on Friday, April 24, 2015, at 2:00 p.m. on CU's front lawn. Each year, the Cleveland Shade Tree Board picks a location to plant trees in honor of Arbor Day, and CU's grounds were chosen to receive the 2015 Arbor Day trees. Tom Simpson, East Tennessee's Regional Urban Forester, will be attending the event to present CU with the Tree Line USA utility flag for 15 consecutive years.

Broadband Legislation

The broadband legislation at the state level was deferred to 2016. Representative Kevin Brooks, Representative Dan Howell and Senator Todd Gardenhire led the way on the issue. Hopefully within the year, others will be supportive of this legislation and there will be success in exploring more options for a cooperative effort amongst utilities. Dan Howell recently stated the issue is not dead, it is just deferred.

Work is ongoing with consultant, Uptown Services, on studying the feasibility of CU entering the broadband business. The consultant will be in Cleveland next week to conduct interviews.

DIVISION REPORTS

Financial

Ken Webb reported on the highlights from a written report prepared by Marshall Stinnett. Stinnett is attending an APPA training event.

1. A graph tracking the residential kilowatt-hour cost from May 2011 through May 2015 was reviewed. The rate for residential customers for May will change to 8.948 cents per kilowatt-hour, a decrease from last month's rate of 9.034 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. Webb received a comment today indicating a local newspaper recently reported Chattanooga's electric rates were decreasing. This decrease is referring to the monthly adjustment, and CU's customers will also benefit from May's decrease.
2. In the electric division, the cost of purchased power as a percentage of retail sales was 85.1 percent for the month of March. For the year to date, this percentage is 84.3 percent as compared to a budgeted percentage of 83.2 percent for FY 2015. Electric sales revenue for March 2015 totaled \$7,130,144, which was offset by purchased power of \$6,069,296. This resulted in an operating margin of \$1,060,848 compared to a budgeted margin of \$1,291,516 for the month of March. These revenue numbers were driven by a customer base of 30,658. Operating expenses for the month were \$1,559,403. The net loss for the month was \$352,409 compared to a budgeted net loss of \$38,740. The results for FY 2015 are electric sales revenue of \$74,285,043, which was offset by purchased power of \$62,608,415. This resulted in an operating margin of \$11,676,628. This brings the division to a combined net loss of \$834,500 for the year to date. Webb stated these results are "disappointing". The net loss for March was directly related to the weather, as the percentage for purchased power was extremely high. Webb said, "We cannot sustain that percentage. This is an example of the importance of us addressing the rate structure issue in the FY 2016 budget." Electric Division VP Bart Borden will be presenting information exemplifying how dependent CU's results are on the weather during his report.
3. For March 2015, water sales revenue was \$1,010,997. The division served 30,749 customers during the month. Operating expenses for the month were \$1,147,173. The water division recorded an operating loss of \$29,979, compared to a budgeted operating loss of \$21,830. The results for FY 2015 are water sales revenue of \$9,698,676. Operating expenses for FY 2015 are \$9,996,881. The resulting operating income for FY 2015 is \$571,182.
4. For March 2015, wastewater treatment revenue was \$883,094. The division serviced 18,326 customers during the month. Operating expenses for the month were \$851,592. The wastewater division recorded an operating income for March of \$112,331, which is compared to a budgeted operating income of \$59,606 for the month. The results for FY 2015 are wastewater

sales revenue of \$7,974,604. Operating expenses for FY 2015 are \$7,564,525. The resulting operating income for FY 2015 is \$1,046,534.

Electric Division

Bart Borden reported on the following:

1. Two graphs were reviewed illustrating the impact the extreme weather experienced in March had on CU's power costs. The first graph represented the temperature for March. Borden pointed out low temperatures of 24 and 22 degrees on the mornings of March 5 and 6. The average low temperature for the entire month was 44 degrees, with an average high temperature of 65 degrees. In perspective, March turned out to be a mild month.

The second graph was a representation of the system peak KW and kilowatt hours. The peak (which does not include customers greater than 5,000 KW) for the 22 degree morning was 176,595 KW and resulted in a demand charge of \$1.637 million from TVA. The extreme weather condition for the two mornings on March 5 and 6 cost CU over \$300,000 in payment to TVA, when compared to using the March 2014 load factor. Although 69,746,744 kilowatt hours were sold during March, the resulting load factor was a very low 53.1 percent. Generally, load factor is in the range of 65 to 68 percent for the month. As a reference, the load factor for March 2014 was 65 percent. Load factor is how well the peak demand is utilized throughout the entire month and is expressed by the kilowatt hours divided by the peak KW, multiplied by the number of hours in the month and multiplied by 100 for the percentage. An ideal load factor is 100 percent. With a load factor of 53.1 percent in March, CU did not sell enough kilowatt hours to offset the peak demand charge. The additional cost was not recovered from CU's residential and GSA1 commercial customers because they do not pay a demand charge; they only pay energy charges and a customer charge.

CU's present rates do not recover extreme weather related peaks. The rate changes CU has requested in the customer charge will help stabilize volatility due to weather conditions, aid in covering fixed costs and is based on the Cost of Service study conducted by Chris Mitchell.

2. In reference to the Harrison building renovation, site work specifications have been completed and the bid request is ready to advertise. The site work will consist of grade work at the rear of the building, replacing the fence and relocating the entrance due to the septic being in close proximity to the existing drive. Vice Chairman Cartwright questioned if CU receives revenue for renting the billboard sign on the property. Borden advised there is annual revenue of approximately \$1,000 associated with the sign and was inherited with the purchase of the property.
3. In reference to the design to relocate 69/13.2 kV lines for TDOT's APD-40 Interchange at Stone Lake Road, payments for the transmission line easements are being prepared and will be delivered for four tracts. Service

Electric was awarded the contract for relocating the transmission lines. Staff was pleased to hear Service Electric was awarded the project. They have completed several projects in the past and perform quality work.

4. Progress continues to be on hold for Timber Creek Subdivision Phase II, Part 1.
5. The electric service installation was completed for Silver Springs Subdivision Phase II. 2,060 feet of conduit, 500 feet of underground 15 kV primary conductor, 800 feet of 600 volt secondary conductor and two (2) 75 KVA pad-mount transformers were installed.
6. Work began to replace 10,056 feet of #336 MCM AAC primary and #3/0 AAC neutral with 795 MCM AAC Primary and #336 MCM AAC conductors on Michigan Avenue, from Benton Pike to just north of Stuart Road. The upgrade in conductor size is required due to switching loads between CU's East Cleveland and Chatata Creek 13 kV substations. The loading on the existing conductor is reaching its rated ampacity when one of the substations is taken out of service for maintenance or if an emergency situation arises.
7. The installation of underground fed electric service was completed at The Haven on Glenwood Drive NW. A total of 790 feet of conduit was installed, 255 feet of 15 kV primary underground cable, 285 feet of 600 volt underground secondary cable, one (1) 37.5 KVA and one (1) 50 KVA pad-mount transformers were installed to serve the 11 lot townhome development. A total of 88 KW new load is expected when the development is fully built out.
8. In reference to the sizeable power outage experienced in November 2014 due to a switch failure outside of CU's East Cleveland substation, a new 69 kV switch was installed in March to replace the existing switch on Hardeman Lane just west of East Cleveland substation. The new switch is equipped with vacuum interrupters, which gives a higher current break rating.
9. An update was presented on traffic lighting:
 - Timing adjustments were made to the AM peak period at 25th Street and Chambliss Avenue. The westbound left turn movement off of 25th Street onto Chambliss Avenue received three more seconds of cycle time and additional passage time to prevent premature gap out conditions.

Water Division

Craig Mullinax reported on the following:

1. King Industries will be completing rehabilitation of the South Sludge Thickener at the Wastewater Treatment Plant. The projected start date is June 1. Currently, the contractor is ordering the materials. In addition, the job will require a large quantity of stainless steel, which will be fabricated in King Industries' shop.
2. The project for the coating / painting of the parshall flumes at the Wastewater Treatment Plant is anticipated to be bid in May.

3. P&C Construction, Inc., has completed the second floor remodel including the Control Room at the Filter Plant. Mullinax reviewed several photographs of the Filter Plant showing the transformation. Staff is very pleased with the outcome of the project.
4. An update was presented on the first phase of the AMR/AMI Water Project funded through the SRF. Philip Luce is coordinating the project. To date, 4,700 encoded registers from Badger and Neptune have been received. 2,600 Elster transmitters are expected to be received next week. The contractor has executed CU's contract. A preconstruction conference will be held on March 24, and the goal is to begin replacing registers in May.
5. Hampton Backhoe Service will be completing the waterline extension on Cabrera Lane. Originally, the project was bid, and the prices came back higher than anticipated. The project has since been rebid and CU, Bradley County and several property owners are now in agreement on the amount.
6. The Chatata Creek pump station improvements are complete. Payments in the amounts of \$52,470 have been made to Nedrow and Associates and \$28,300 to K. Berry Construction.
7. Work is progressing on the Wastewater Rehabilitation Project:
 - AITC has lined 31,500 feet of pipe for the Basin 31-45 and 10-36 Rehabilitation project. In addition, 79 services have been renewed, 85 cleanouts installed, 35 manholes have been lined and 18 manholes have been raised to grade.
8. The meter department set 32 meters through March 2015, compared to 20 for March 2014 and 49 for March 2013. Of the 32 sets, 25 were for single-family homes, 6 were for townhomes and 1 was for an apartment. A total of 231 meters have been set this fiscal year, with an average of 29.
9. A chart was reviewed on rainfall totals. For April 2015, rainfall is .82 inches below average.

OLD BUSINESS

Strategic Plan Update

Amy Ensley presented an update on the implementation on the Strategic Plan and informed of the progress made to date. The VP's responsible for the initiatives and the employees participating in the study groups have done an incredible job. A great deal of effort has gone into the process and numerous meetings have been held.

A significant amount of progress has been made for Initiative 1: Enhancing internal and external communications. Study groups have been formed for goals 1.1, 1.2, 1.3 and 1.4. In addition, a chairperson was selected for each of those goals. The study group for goal 1.1 has elected to focus on three primary goals for the improvement of interdepartmental communications: 1) suggestion boxes; 2) departmental staff meetings; and 3) electronic calendars. The study group for goal 1.2 (provide opportunities for employee interaction) is proposing to have a meet and greet for employees to attend in the near future. The group for goal 1.3 (enhancing CU newsletters) is discussing various ways to improve the newsletter and are brainstorming ideas to improve the flow of the information forming the

content of the newsletter. Improving communications within the community is goal 1.4. This group is going to make a request to management in the near future for approval to create Facebook and Twitter accounts to reach customers via social media. The last goal of Initiative 1 is to enhance website communications (goal 1.5). CU's website is updated on a regular basis, and a real-time outage map is a feature that has recently been added. This interface allows users to see outages as they are happening via a map-based web portal. Customers can view the location of the outage and the number of customers affected.

Bart Borden, Craig Mullinax and Jan Runyon are responsible for Initiative 2: Strengthen Policies and Procedures. Management is in the process of conducting a needs analysis based on current policies and procedures. A study group comprised of a diverse representation of employees will be formed during the 3rd quarter of 2015. At the end of 2015, management will be examining goal 2.2: creating a system for cross training/professional development and continuing education. Annual staff review meetings were instituted for all departments satisfying goal 2.3. These meetings were conducted in January and February of 2015. Topics included staffing, equipment/facility needs, training and safety needs or concerns. As a result of these meetings, several issues and requests have been fulfilled. A study regarding an apprenticeship program for Water/Wastewater Construction will be explored by the 3rd quarter 2016 for goal 2.4.

Initiative 3 consists of developing internal performance measures (IPM) for safety, reliability & compliance, financial stability and rates. IPM's for safety have been completed; John Corum hopes to present this information at May's board meeting. In the near future, staff will be addressing issues to improve the electric reliability indexes (ASAI, CAIDI, SAIDI, SAIFI). In addition, IPM's for financial stability and rates have been completed. Financial records are reported on a monthly basis. In January, Stinnett reported the utility benchmark operating financial ratios. Monthly rate checks are performed to ensure proper rates are being applied for all three divisions. Recently, a rate analysis was completed comparing CU's current and future rates to those of similar-sized neighboring utilities. In addition, a comprehensive Cost of Service study for electric was completed by Chris Mitchell. Due to the complexity of TVA's rates, a Cost of Service study for electric will now be done on an annual basis.

Webb expressed thanks to staff and the numerous employees for their continued effort and support involving this project.

NEW BUSINESS

Approval of Purchase Order with Demand Mechanical

On motion by Chari Buckner and seconded by Mayor Tom Rowland, the Board of Public Utilities voted unanimously to approve a purchase order with Demand Mechanical in the amount of \$180,550 for the installation of an air-cooled, scroll, liquid chiller and digital-to-digital control system at the Power Service Center. This is budgeted for FY 2015.

Administrative Services VP Tim Henderson advised the existing unit was

manufactured in 1992 and still functions; however, there are reliability issues, maintenance costs continue to increase and the unit is inefficient. The new system will have a 5-year/5-month full manufacturer's warranty with an energy efficiency rating of 16.5; the existing unit has an energy efficiency rating of 11.5. Energy savings in the range of 28 percent will be seen immediately. The chiller is the most effective way to remove heat. In addition, the new control system will allow staff to monitor and control the temperature in all of the offices from remote locations, which could allow for even greater energy savings. Five bids were received and ranged in price from a low of \$180,550 to a high of \$285,778.

Approval of Purchase Order with Hampton Backhoe Service

On motion by Eddie Cartwright and seconded by Joe Cate, the Board of Public Utilities voted unanimously to approve a purchase order with Hampton Backhoe Service, LLC in the amount of \$111,362 for the installation of 3,587 lineal feet of 6 inch PVC waterline along McDonald School Road, SW. The new line will replace a 2 inch galvanized waterline. This project is included in the FY 2015 budget. Three bids were received. The low bid was rejected due to an invalid contractor's license. Hampton Backhoe Service submitted the subsequent low bid.

OTHER BUSINESS

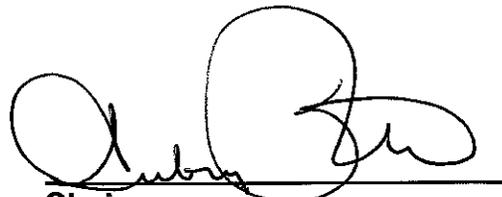
Future Board Meeting Dates

Following is a list of future board meeting dates to be held at the Tom Wheeler Training Center:

Thursday, May 28, 2015, 3:00 p.m.

Tuesday, June 23, 2015, 3:00 p.m.

Amy ENSLEY
Utility Board Secretary


Chairman

5-28-15
Date