

MINUTES OF REGULAR MEETING
CLEVELAND UTILITIES BOARD
JUNE 22, 2018

The Board of Public Utilities met at 9:00 a.m. at the Tom Wheeler Training Center.

Present were the following: Aubrey Ector, Chairman; Eddie Cartwright, Vice Chairman; Tom Rowland, Mayor; Joe Cate, Cleveland Utilities Board; Chari Buckner, Cleveland Utilities Board; Tim Henderson, President/CEO; Amy Ensley, Utility Board Secretary; Walt Vineyard, Executive VP; Craig Mullinax, VP Water and Wastewater; Marshall Stinnett, VP/CFO; John Corum, VP Administrative Services; Jan Runyon, Assistant VP Administrative Services; Dean Watson, Electric Operations Manager; Annette Townsend, Customer Service Representative II; David Yost, GIS Director; and Tim Siniard, *Cleveland Daily Banner*. Following the Pledge of Allegiance to the American Flag, Annette Townsend delivered the invocation.

MINUTES OF MAY 25, 2018

On motion by Mayor Tom Rowland and seconded by Vice Chairman Eddie Cartwright, the Board of Public Utilities voted to approve the May 25, 2018, minutes as written.

MANAGER'S UPDATE AND ANNOUNCEMENTS

Independence Day Holiday

Cleveland Utilities will be closed on Wednesday, July 4, 2018, in observance of Independence Day. The Call Center will be open and regular emergency/standby services will be maintained 24/7.

Cleveland State Foundation Community First Capital Campaign Donation

On Monday, June 18, 2018, Cleveland Utilities partnered with the Southeast Industrial Development Association (SEIDA) and presented a check to Cleveland State Community College (CSCC) President, Dr. Bill Seymour, along with several of the CSCC staff and board members for their Community First Capital Campaign. John Corum, Tim Henderson and Walt Vineyard were in attendance on behalf of CU, and Beth Jones and Stephanie Watkins represented SEIDA. Cleveland Utilities has economic development funds through SEIDA, and CU designated \$5,000 of those funds and SEIDA matched the amount for a total combined donation of \$10,000. In this campaign, if CSCC raises \$2.5 million, they will receive a \$25 million grant from the State. The funds will be used to build a new Health & Sciences Building and to renovate the Mary T. Barker Humanities Building.

Tennessee Occupational Safety and Health Administration (TOSHA) Audit

In 2016, CU established their own independent Occupational Safety and Health Plan under TOSHA's public sector program. Administrative Services VP John Corum reported on June 4, 2018, TOSHA representative, Hank Plain, conducted an audit of CU. The morning began with a conference and inspection of record-keeping and written programs for CU's safety programs, all of which went extremely well. Plain then visited the WWTP for the majority of the day, which resulted in a few findings; however, all were abated by the end of the week. Corum commended Chris Wilds and the Facilities Maintenance Department, along with Mike Ward and staff at the WWTP and Nathan Vann for their assistance in addressing the items quickly and efficiently. The audit is not yet complete; the Process Safety Management (PSM) Plan is still under review, and CU is awaiting the final report to see if further action is required. CU is required to operate under a

PSM Plan due to the volume of chlorine at the plants. Steve Barger maintains the PSM Plan and does an exceptional job. Overall, the visit went really well, and another update will be provided once the official report is received. Corum advised he is appreciative of the partnership with TOSHA. Plain has been terrific to work with, and CU wants to ensure any type of hazard in the workplace is eliminated. TOSHA is Tennessee's state level branch of the Federal OSHA.

DIVISION REPORTS

Financial

Marshall Stinnett reported on the following:

1. A chart tracking the kilowatt-hour cost in residential retail electric rates for the months of July 2014 through July 2018 was reviewed. For the month of July, the residential retail electric rate will change to 10.115 cents per kilowatt-hour. As a comparison, June's rate was 9.903 cents. This rate change is driven by TVA's Fuel Cost Adjustment, as well as the very small adjustment CU made at the kWh rate effective July 1, 2018. As a continued trend, Cleveland Utilities will pass the TVA fuel cost rate adjustment to its consumers.
2. The May 2018 financial and statistical statements were presented to the Utility Board. During May, the cost of purchased power as a percentage of retail sales was 77.2 percent. The budgeted percentage is 80.9 percent. The results for the month were electric sales revenue of \$8,116,411, which was offset by a purchased power expense of \$6,269,561. This resulted in an operating margin of \$1,846,850. Operating expenses for the month were \$1,816,896 and can be compared to a budgeted operating expense of \$1,585,021. The division serviced 31,825 customers. Net income for the month was \$226,988, which is compared to a budgeted net loss of \$33,762. Stinnett noted the month of May was extremely warmer than projected and is reflected in TVA's Fuel Cost Adjustment moving into July.
3. For May 2018, water sales revenue was \$1,189,138. Other revenue sources contributed an additional \$124,301 for the month. The division serviced 31,998 customers. Operating expenses for May totaled \$1,258,868 and can be compared to the budgeted amount of \$1,267,368. The division recorded an operating income of \$54,571 and can be compared to the budgeted operating income of \$91,633.
4. For May 2018, wastewater treatment revenue was \$1,028,088. Other revenue sources contributed an additional \$74,950 for the month. The division serviced 19,137 customers. Operating expenses for the month were \$950,174. The division recorded an operating income of \$152,864. This can be compared to a budgeted operating income of \$109,910.

Electric Division

Dean Watson reported on the following in the absence of Bart Borden:

1. All construction work has been completed for the Harriman Road/Spring Branch Industrial Park Transmission Line Project except for two spans of conductor just outside of South Cleveland Substation. An outage is required on the adjacent 69 kV circuit to enable the crews to install and tie in the conductor and new switch.
2. In reference to the Spring Branch Industrial Park Innovation Drive Distribution Lines Project, the overhead distribution lines remain on schedule for installation by the end of August.

3. All required contracts have been finalized for the substation equipment for the East Cleveland 69 kV bus breaker addition, and the project remains on schedule to be worked this coming fall in conjunction with the power transformer replacements. The new 69 kV bus breaker has arrived and is being prepped for use by substation department personnel.
4. CU continues to work with Service Electric of Chattanooga, TN, to finalize plans for the North Ocoee Street LED Street Lighting Conversion Project which encompasses the area on North Ocoee Street from the Monument at 8th Street northward to Mouse Creek Road. Electric Engineering is currently working through the new TDOT permitting process for traffic control along with acquiring TDOT approval for the photometric layout design.
5. The Electric Engineering Department purchased and received a new DJI Matrice 210 Drone capable of carrying a visible light and a thermal imaging camera. The new drone will be utilized to survey the electric system to check the structural integrity of poles as well as the thermal integrity of components and connections. Since being placed into service, engineering has released a work order to replace 17 wood poles on Chippewa Avenue after the aerial inspection with the new drone revealed rotten pole tops that could not be repaired without creating code clearance violations. The estimated project cost is just under \$140,000.
6. An update was provided for the spare transformer at East Cleveland Substation. After receiving ABB's report and recommendation, CU prepared to energize the unit with no load and pull oil samples over a 24-hour period to determine if the core and coil were actually the source of the gassing. ABB had filtered and degassed the oil, which provided a good baseline to begin the testing. Oil sample kits were obtained, and the unit was to be energized once there was a break in the weather due to wet conditions. Additionally, operations personnel met with TVA officials and field personnel to finalize plans to place additional load onto TVA's bank for the summer months. After agreeing to utilize the common transfer bus to feed CU's three 69 kV feeder breakers, one distribution substation was placed onto each 69 kV breaker, allowing up to 50 MVA of load on the TVA bank until delivery of the new power transformers this fall.
7. At the previous meeting of the Utility Board, ABC Professional Tree Services, Inc. was awarded the three-year vegetation management contract. The cost for the three-year circuit work totaled just over \$5 million. Along with the circuit work, the bid also included hourly rates for items such as hot spot work and storm restoration as well as per unit work for individual tree removals based on the tree size. In an effort to better track and annually budget these costs, an estimate will be made for both the hourly work and per unit work expected to occur this coming year based on ABC's invoices supplied for the past six months. Plans are to generate a purchase order based on these estimated charges to present to the Utility Board for consideration at the next meeting.
8. CU line crews installed a total of 35 new underground services, over 3,000 feet of conduit and 3,500 feet of underground conductor during the month of May. This is a marked increase over previous months and reflects the upturn in the housing market. The trenching and conduit installation for these services was previously being performed by Asplundh employees. The expense and labor costs of CU crews digging these services versus contracting to a third party will be closely monitored to determine which is more cost effective. Contracting the digging could also free up manpower for other line projects.

9. An update was presented on traffic lighting:
 - Eight ATC traffic controllers have been programmed and Ethernet switches prepared for installation at five intersections along the Paul Huff Parkway corridor. The controllers and communication upgrades were required for a pilot project city personnel set up with Miovision utilizing new equipment designed to capture performance data measurements along the entire test area. The collected data will enable existing traffic coordination and timing programs to be evaluated and adjusted for maximum efficiency. The controllers and Ethernet switches will be installed prior to the start of the project.
 - CU's Traffic Signal Coordinator has been negotiating with Peek Traffic Corporation to provide a discount on the latest generation of central software, Spinnaker. Central software is the backbone of all communications with traffic controllers and coordinated software. The existing software, IQ Central, is no longer supported and very limited in its capabilities of ATC controllers. Their current price of the software is just over \$100,000 and also requires a yearly maintenance fee.
10. The SCADA system recorded a peak of 182,670 kW on May 24, 2018, during a peak shaving event. TVA's billed demand peak of 181,870 kW coincided with CU's peak and was recorded at 3:59 p.m. CST. The peak shaving resulted in a reduction of 3,274 KW, a load reduction of 2.07 percent and a cost avoidance of \$32,997.75. The year-to-date cost avoidance total stands at \$119,470.64.
11. Several plats and site plans were reviewed during the month of May. The most notable include Popeye's on Paul Huff Parkway at Frontage Road, the Heartland Subdivision on Tasso Lane, the Grove at the Farm Phase 2 on Grove Park Drive and the Bradley Place Site Plan at the former Kmart location at the Bradley Square Mall. Copies of the plats and plans were available for viewing.

Water Division

Craig Mullinax reported on the following:

1. The Flocculation/Sedimentation Basin Improvements Project at the Cleveland Filter Plant (CFP) will soon begin. The notice to proceed is July 9, 2018, but Haren Construction may be able to commence a few days earlier.
2. Work for the Raw Water Pump Station Project has began. Materials are on order for the electrical improvements, and this portion is expected to begin in late July. Southern Star Construction is onsite and has started the building improvements.
3. Construction is underway for upgrade of the carbon feeder equipment at the CFP, and the contractor is expected to be complete in two weeks.
4. The Georgetown Road Water Storage Tank, Booster Pump Station and Water Main Extension Project is advancing. The pump station is being delivered today and will be set in place on Georgetown Road at 10:00 a.m. Updated pictures showing progress of the tank construction were displayed. The tank is drying and is essentially structurally complete. The contractor will return in a few weeks to paint and install hardware. There is a curing period of approximately one month, and the tank can then be filled with water.
5. Bids were opened at 4:00 p.m. yesterday, June 21, 2018, for water main extension/replacement projects for Baugh Springs Trail & Banther Road, Van Davis Road

- (SR60 to Swafford Cemetery Road), and Van Davis Road south of Morgan Road. These three projects will be presented to the Utility Board for consideration at July's meeting. Four to five bids per project were received.
6. Hampton Backhoe has completed the Savannah Avenue and Spring Street Water Main Replacement Project. CU is awaiting the invoice for final payment.
 7. The Tennessee Local Development Authority (TLDA) Board met in June and approved the 2010 Annexation Sewer Project on APD 40. Once official approval is received, staff will proceed with the bidding process.
 8. Westco has been engaged to initiate the clearing and maintenance of 36,750 feet (7 miles) of sewer easements. Work is anticipated to begin on June 25, 2018.
 9. Engineering is reviewing the following plans:
 - Cobblestone Ridge Subdivision on Old Chattanooga Pike consisting of 48 lots, 1,800 feet of 6-inch water main and 2,180 feet of 8-inch sewer main. D&S Custom Homes, LLC is the developer.
 - RaceTrac Market on APD 40 at Holloway Road comprising 360 feet of 8-inch water main and 500 feet of 8-inch sewer main. RaceTrac Petroleum, Inc. is the developer.
 - Bradley Place Sewage Pump Station Upgrade at Bradley Square Mall. Morrison Companies is the developer.
 10. Hampton Backhoe has completed the Falcon Crest Water Booster Pump Station on Frontage Road as well as the installation of the water and sewer main for Stone Creek, Phase I on New Murraytown Road.
 11. The following work was performed for the ongoing Wastewater Rehabilitation Project:
 - Portland Utilities has completed 5 manhole rehabilitations during this period for the 2017 Rehabilitation Project, Basin 31-45 & 10-36.
 - In reference to Phase 2 of the 2017 Rehabilitation Project, Basin 31-45 & 10-36, the contractor completed 1 service lateral rehabilitation and 8 manhole rehabilitations during this period.
 - A preconstruction conference was held on June 19, 2018, for Phase I of the Basin 10A-8 Rehabilitation Project. The notice to proceed will be issued on July 2, 2018, and the lining contractor will begin pre-CCTV work the first week of July.
 12. The Meter Department set 40 meters through May 2018 compared to 25 for May 2017 and 13 for May 2016. Of the 40 meter sets, 36 were single-family homes, 2 were townhomes and 2 were duplexes. A total of 327 meters have been set this fiscal year compared to 327 for May 2017 and 333 for May 2016.
 13. The total amount of rainfall recorded at the Cleveland Filter Plant for the month of May was 7.01 inches, which is 2.11 inches above normal. As of June 19, 2018, a total 0.29 inches of rainfall has been recorded at the CFP for this month. However, this number is somewhat deceiving. During this same period, a total of 1.6 inches was recorded in one day at the Water Division Main Office Building. CU has 6 rain gauges in various locations around town and different levels were recorded at each one.
 14. The water demand has been very strong to date for June. If projections continue, demand will average over 12.3 million gallons a day for the month, up 11.5 percent from this same time last year.

OLD BUSINESS

Dell Purchase Order Voided

The purchase order to Dell Computer Corporation in the amount \$77,961.35 for the Microsoft Select renewal for a 3-year term which was approved by the Utility Board at the March 2, 2018, board meeting has been voided due to the quote from Dell being incorrect. Dell had not invoiced CU for any of the amount and no payments were made to Dell. The renewal will be on a yearly term, and the amount does not fall within the threshold requiring board approval.

TVA Rate Change/Grid Access Charge (GAC)

As discussed at the last board meeting, CU has been working diligently with TVA representatives to determine the proper translation of the Grid Access Charge (GAC) from the wholesale bill to the retail bill. Henderson commended Borden, Stinnett and Vineyard for their involvement and efforts in these negotiations. Stinnett then provided a detailed explanation of the GAC and the proposed conversion of this fee to CU and its customers. On May 10, 2018, the TVA Board of Directors approved the establishment of a new wholesale fixed charge, termed the Grid Access Charge. Prior to this approval, TVA charged Cleveland Utilities based upon the monthly demand (kW) and volume (kWh). The only portion of CU's bill from TVA that was fixed prior to this change was the charge received for the two access points (South & East Cleveland Substations).

As of October 1, 2018, TVA will implement the GAC. The GAC will be based upon a rolling, five year average of volumetric purchases (kWh) for each Local Power Company (LPC). The GAC is calculated by multiplying an LPC's five year average of purchases (kWh) times \$0.005. This charge will be updated annually at the end of TVA's fiscal year in September. For the fiscal year 2019, CU's GAC will be \$4,248,433. As an offset to this fixed charge, TVA is also decreasing its wholesale base kWh rate by \$0.005.

Due to this wholesale change, CU is requesting this fixed charge be a direct pass through to the retail bill. CU has calculated the total bill impacts of this change, and has decided to phase this change in over a 2-year period, with the first phase being implemented in October 2018 and the second phase being implemented in October 2019. The change in retail rates will mirror the change at the wholesale level. CU will calculate the kWh consumption of the Residential and GSA 1 class and calculate a monthly fixed charge, while decreasing the kWh rate for these classes. The GSA 2 and GSA 3 classes will be based upon the individual customers' five year average of consumption. This charge will be updated annually for all classes. In addition, this new fixed component will be displayed on the CU bill as "TVA Grid Access Charge" to provide transparency to all customers as to the driver of those charges.

Beginning in October 2018, the GAC will be \$2.00 per month for the residential and the GSA 1 customers. All GSA 2 & 3 customers will have their GAC calculated based on the previous five year average of consumption multiplied by \$0.0025. These charges will be offset by a reduction in the kWh rate of \$0.00181 for the residential class, \$0.00126 for the GSA 1 class, and \$0.0025 for the GSA 2 & 3 classes.

Lastly, as a measure of mitigating risk associated with a two year implementation, CU will request a \$0.00032 increase in the kWh rate on the residential and GSA 1 retail bill for October 2018. This increase will be removed along with implementation of future adjustments of the GAC in October 2019.

Mayor Rowland questioned what Volunteer Energy recently requested of the Bradley County Commission concerning TVA rates. Stinnett informed VEC was asking the Commission to compose a letter to oppose or not support TVA's proposed 1.5 percent rate increase. The GAC is a net zero rate structure redesign and completely separate issue. TVA has had rate increases of 1.5 percent over the last four years, which are a direct pass through to the retail customer, and they plan to continue with the 1.5 rate increases annually for at least the next two years. TVA's initial plan included these rate increases through 2021. VEC would like updated information to substantiate the necessity of the rate increase.

Board Member Buckner then asked if there is less emphasis on energy efficiency with the reduction in the kWh rates in the GAC. Stinnett advised five years ago, TVA's projections showed a steady incline in sales; however, energy efficiency has pushed demand flat to almost negative. When facilities were built and rates were designed for a growing demand period, and then it's determined to be flat to negative, it's causing pressure such as this to take place. Along with energy efficiency, the industry is also facing other challenges through third party distributed generation, technological advances, etc. There is a value of the grid, and customers who have access to the system need to be fairly paying for use of the asset. The GAC restructures how these costs are recovered.

On recommendation by President/CEO Henderson, Vice Chairman Eddie Cartwright motioned and Chari Buckner seconded for the Board of Public Utilities to approve the GAC as presented above. The motion passed unanimously.

Approval of Agreement and Purchase Order to Wilder Contracting, LLC

On motion by Mayor Tom Rowland and seconded by Chari Buckner, the Board of Public Utilities voted unanimously to approve a purchase order and agreement with Wilder Contracting, LLC for the 2018 Building Renovation Project for renovations to the exteriors of the Power Service Center (Main Building) and TWTC in the amount of \$709,084. Three bids were received. Wilder Contracting submitted the low bid of \$1,039,000, which exceeded the budgeted project amount of \$800,000. Value engineering was used to reduce costs to get the pricing within budget.

Vineyard displayed a print of the architectural rendering and highlighted major items in the project which include new stone focal towers, stone accents and staining of the brick at both buildings as well as parapet panel replacement at the main building. Henderson informed bids for the original building were let in 1969 and work began in 1970. Corum then expressed appreciation to David Yost for his diligent work on the value engineering with Wilder's President, Travis Brooks, and provided further details. The signage was removed from the original bid in hopes of negotiating better pricing outside this contract. Facilities improvements are included as an initiative in CU's new Strategic Plan for 2018-2021 which is being presented as a new business item. These upgrades will make an overall significant difference and be a great improvement. Additionally,

wayfaring signage to help customers navigate the campus and parking lot renovations will be incorporated over the next three years. Work is expected to begin in late June or early July.

NEW BUSINESS

Approval of 2018-2021 Strategic Plan

On motion by Joe Cate and seconded by Mayor Tom Rowland, the Board of Public Utilities voted unanimously to approve the 2018-2021 Strategic Plan for Cleveland Utilities. Corum advised the Strategic Plan will focus on four major initiatives: 1) Enhance Internal and External Communications; 2) Improve Customer Service; 3) Proactive Customer Advocacy; and 4) Facilities Improvements. The Communications Initiative was carried over from the previous Strategic Plan and one in which CU will continue to focus efforts on. There is always work to do in this area and a great challenge for any organization. The second and third initiatives focus on customers/key accounts with the enhancement of customer service and advocacy. One of the goals includes the establishment of a Customer Service Quality Team. Lastly, the remaining initiative encompasses the facilities improvements as outlined above.

Approval of Property, Liability and Workers' Compensation Insurance for Fiscal Year 2019

On motion by Mayor Tom Rowland and seconded by Joe Cate, the Board of Public Utilities voted unanimously to approve property, liability, and workers' compensation insurance from July 1, 2018, and ending June 30, 2019, with Distributors Insurance Company (DIC) for a premium of \$917,652. DIC is a wholly-owned subsidiary of TVPPA. Arthur J. Gallagher & Co. is the program manager. There was an increase in premium of just under five percent from 2018 and is fair due to the exposure over the past three years and loss of transformers per Stinnett.

Approval of Purchase Order to Jackie Evans Trucking Company

On motion by Vice Chairman Eddie Cartwright and seconded by Chari Buckner, the Utility Board took action to unanimously approve a purchase order with Jackie Evans Trucking Company in the amount not to exceed of \$100,750 for the removal of alum sludge, approximately 650 loads, from the Cleveland Filter Plant. The service period is from July 1, 2018, to June 30, 2019, and the service is budgeted for FY 2019. This is a sole source procurement.

Approval of Purchase Order to Vulcan Materials Company

On motion by Joe Cate and seconded by Chari Buckner, the Board of Public Utilities voted unanimously to approve a purchase order with Vulcan Materials Company in the amount not to exceed \$90,000 for the purchase of stone backfill. The purchase period is from July 1, 2018, to June 30, 2019. The stone backfill is budgeted for FY 2019 and is a sole source procurement.

OTHER BUSINESS

Future Board Meeting Dates

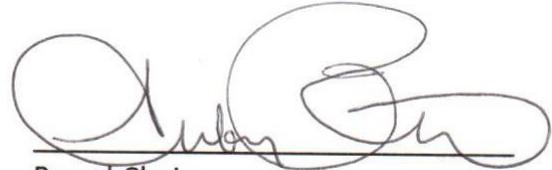
Future, regularly scheduled board meeting dates at the Tom Wheeler Training Center are as follows:

Friday, July 27, 2018, 12:30 p.m.

Friday, August 24, 2018, 12:30 p.m.

Friday, September 28, 2018, 12:30 p.m.

Amy Ensley
Board Secretary


Board Chairman

7/27/2018
Date