

VERMONT ELECTRIC COOPERATIVE, INC.
SPECIAL MEETING OF THE BOARD OF DIRECTORS
September 11, 2020

APPROVED MINUTES

As required under the VEC Bylaws, notice of this meeting was sent to each Director either via US Mail on September 4, 2020 or by electronic means for those Directors requesting such delivery.

CALL TO ORDER – AGENDA ITEM #1

President Rich Goggin called the meeting to order at 8:00 a.m. via video conference. Present were Directors Ken Hoepfner, Carol Maroni (Second Vice President), Mark Woodward (Secretary), George Lague, Charlie Van Winkle, Don Worth, Paul Lambert (First Vice President), John Ward (Treasurer), Tom Bailey, Rich Westman, and Jody Dunklee. Also present from VEC were CEO Rebecca Towne, General Counsel Vickie Brown, Chief Financial Officer Mike Bursell, Chief Operations Officer Peter Rossi, Safety & Security Manager John Varney, Manager of Government Affairs and Member Relations Andrea Cohen, and Project Planner Laura Kinney.

Jim Meiers and Elaine MacDonald from CFC joined the meeting as guests.

Towne noted that this meeting will be entirely devoted to continuing the discussion from the regular August Board meeting as to what role VEC can play to promote the deployment of broadband service in its territory. There will be a number of guest speakers to provide background and information to assist the Board. She introduced Meiers and MacDonald to discuss financial aspects of broadband from a lender's perspective.

Meiers described the support that CFC has provided to other cooperatives which have entered into the broadband business. They are currently working with up to 200 co-ops pursuing broadband in various ways– some in partnership with other providers and some providing broadband directly. He cited Otsego Cooperative in New York, which has been successful because between 80% and 100% (depending on the area) of their costs were covered by grants.

Meiers shared the following best practices that they have observed:

- Conduct a feasibility study, as VEC has done with NRTC.

- Take time to do the proper analysis. Co-ops having the most success work on their own time line. They may not participate in RDOF because of the tight timeframe and commitments that are required – as well as the penalties for non-compliance.
- Take a phased approach – start small, learn lessons, grow expertise, build cash flow. Once the first phase is cash flow positive, move to phase two. The downside to this approach is that it takes time.
- Conduct a market study to understand take rate, price point, and competition in area.
- Prepare a detailed business plan. A feasibility study is a general project plan, but a business plan is much more detailed. VEC should determine whether it is prepared to fund the operating losses in the first five to nine years. Borrowing may be possible to fund capital expenditures, but operating funds will require an equity investment from the co-op because lenders will not lend to non-cash-flow positive businesses. There is also the regulatory component for coops in regulated states, including Vermont where there is a statutory prohibition on electric coops funding non-regulated affiliated/subsidiary companies. Also, lending to a subsidiary will require a guarantee from VEC.
- Prepare to conduct several financial forecasts – one for the broadband company and one consolidated for VEC and the broadband company. Lenders will want to see the impact of the broadband business on VEC as a whole.

Meiers and MacDonald identified a number of risks to consider, including:

- RDOF grant money may not be sufficient to warrant the commitment to build out the census blocks that are awarded. With 10% of projected costs from RDOF, VEC is left to fund 90% through debt.
- The cost to build out VEC's entire service area is significant, given VEC's financial resources and current asset base.
- There will be negative cash flow and the Board must be comfortable supplying cash to the start-up business for five to ten years.
- More debt will cause VEC to fall below its Debt Service Coverage ratios for a number of years and will also degrade equity levels, hindering VEC's ability to retire patronage capital or invest in VT Transco.

- There may be a negative impact on VEC's financial rating, as rating agencies like to see increased equity. A downgrade in rating may jeopardize VEC's ability to secure favorable power supply contracts.

Meiers noted that CFC has worked collaboratively with various cooperatives to navigate some of these same financial challenges with a thorough and thoughtful process – CFC is a partner to work with VEC on the path of their choosing.

There were numerous questions throughout the presentation, with directors sharing their own observations and recommendations about the best course of action by VEC.

Meiers and MacDonald left the meeting.

There was a break at 9:10 and the meeting resumed at 9:16

Kevin Fitzgibbons, Rudy Tober, and Amy Lingle from NRTC joined the meeting as guests.

Goggin noted that this agenda item is to allow for a deeper dive into the financials included in the NRTC feasibility study.

There were numerous questions about the RDOF process and likely outcomes. Fitzgibbon explained the details of the RDOF process, noting that we have little insight into who might be bidding or on which census blocks. Fitzgibbon recommended that VEC understand the financial conclusions in the model independent of RDOF funding given the small amounts available for the VEC census blocks.

There were a question about building out entire territory versus a phased approach. NRTC noted that it did not model a phased approach and recommended that the Board be clear about the goals of a phased or pilot approach. If goal is to be cash flow positive for a given pilot area, that will be challenging. If goal is to test some of the assumptions in the model, then a pilot may serve that goal.

Fitzgibbons, Tober, and Lingle left the meeting

Tom Kavet, Vermont State Economist, and Barry Bernstein, Washington Electric Cooperative Board president, joined the meeting as guests.

Kavet addressed the Board as to macro-economic concerns about the broader state-wide and national economy, making the following observations:

- The economic environment is dominated by the pandemic right now. It has been an accelerant to technology adoption, which was happening anyway.
- Broadband infrastructure now is as critical as electricity was when VEC was formed. It is essential to economic development especially for remote regions.
- There is a real estate surge but it is hard to predict how permanent that will be.
- The pandemic has been a huge challenge but also an opportunity, especially given the federal money that has become available or may be available in the future.
- The sector with the most growth potential is professional services.

There were numerous questions from Board members throughout the presentation.

Kavet and Bernstein left the meeting at 10:55. There was a break in the meeting and the meeting resumed at 11:07.

Towne provided a presentation from VEC management's perspective. She first recognized the importance of broadband and hopes that VEC will be a catalyst for broadband deployment, which may take many different forms. She recommended that the Board consider VEC's role in broadband in the context of our strategic goals and our capacity to undertake a new enterprise. Management is currently focused on three priorities: (1) supporting our employees as we adapt to the pandemic, (2) keeping electricity affordable for our members, and (3) exploring opportunities for electric system growth.

She shared with the Board the steps VEC is currently taking to accelerate broadband in the form of increased levels of make-ready work, which are anticipated to escalate quickly and remain high over the next five years. That requires significant capital investment by VEC.

She also noted that VEC is currently collaborating with VELCO and other utilities to develop a high quality mapping database to share with broadband providers to assist them in their planning.

Finally, she noted that VELCO is exploring a backbone fiber buildout, which is required – and largely funded -- by ISO-New England due to new data requirements from small generators. This

could provide an opportunity for distribution utilities to fund additional strands and own fiber for utility use or broadband leasing purposes. The early draft VELCO fiber route is quite similar to the proposed fiber route included in NRTC's feasibility study.

She also highlighted a number of legal and regulatory risks of VEC becoming a broadband company.

Finally, she described possible next steps in further exploring VEC's role in broadband deployment and recommended that (1) VEC leverage its existing strengths to support rapid deployment in rural Vermont, and (2) explore other options for how VEC can be a broadband catalyst, consistent with our five-year plan and mindful of financial risks.

There were a number of questions throughout the presentation, and directors offered their individual viewpoints as to where VEC should go next.

Hoepfner moved and Woodward seconded to go into executive session to discuss a confidential potential business arrangement. By unanimous vote the Board entered executive session at 12:18.

The Board exited executive session at 12:25.

Lambert moved and Ward seconded to adjourn.

The motion carried unanimously, and the meeting adjourned at 12:28.

Respectfully submitted:

Mark Woodward, Secretary

Rich Goggin, President