Winooski One Hydro Purchase
Financial Review of Arbitration Outcome

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History

- BED entered a series of agreements with the Winooski One Partnership (WOP) when the Winooski One hydroelectric facility was obtaining its FERC license between 1988 and 1991

- Simultaneously WOP entered a 20-year contract with the State of Vermont for the state purchasing agent to buy all power from the plant
    - Contract ran 4/1/1993 to 3/31/2013

- BED's agreements included an option for BED to purchase the facility for "Fair Market Value" when WOP's contract ended
    - The option had to be initiated in September, 2012, which BED did with city council approval

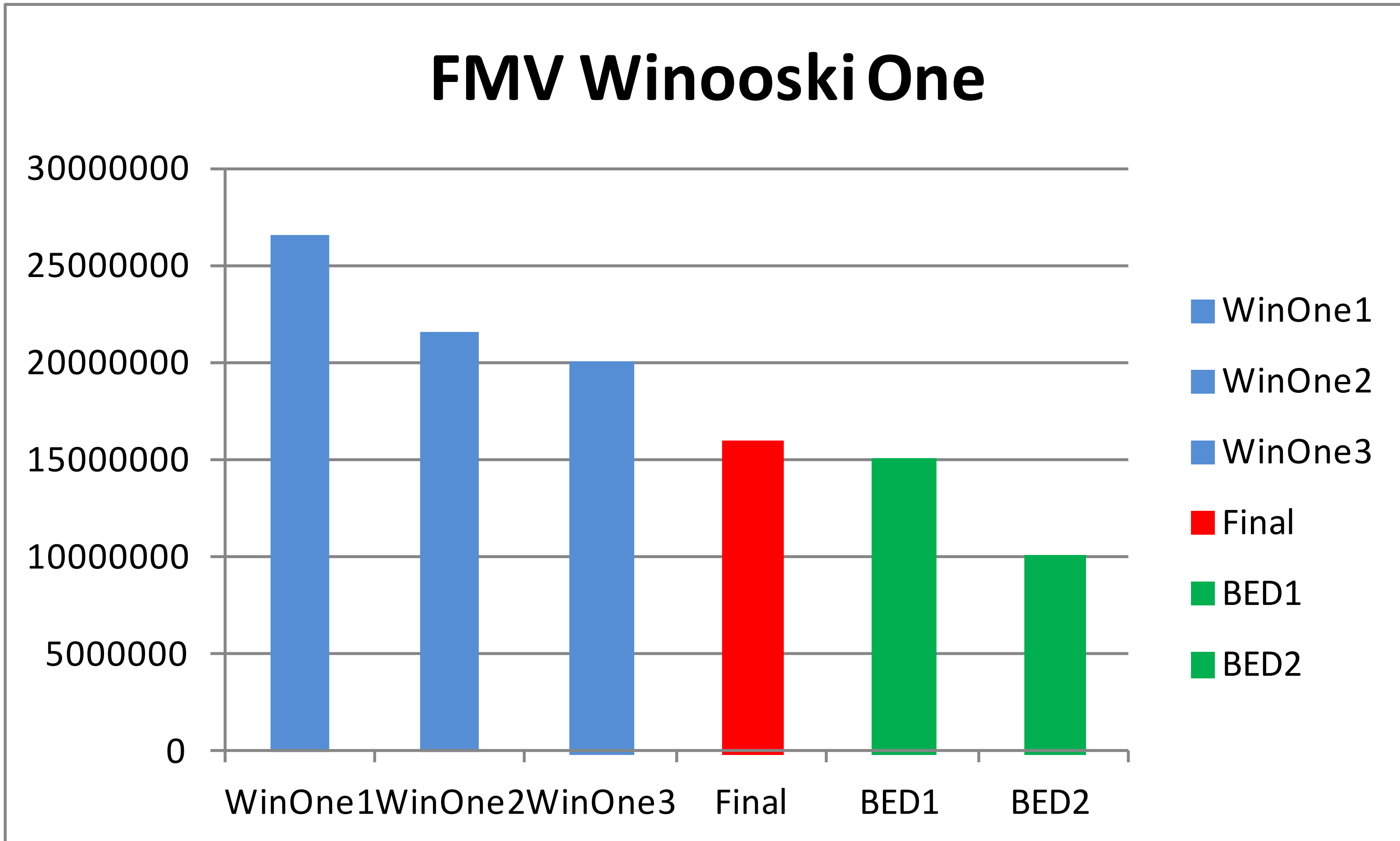
The Option

- Stated the purchase price was “Fair Market Value” (FMV)
- If the parties could not agree on the FMV then it would be decided through binding arbitration
  - If arbitration rules could not be agreed upon then the American Arbitration Association (AAA) was to be used
- BED had to post a $100,000 deposit upon executing the option, which would be credited to the purchase if completed
- BED has 18-months from notifying WOP to complete the purchase or interest will begin accruing
  - The exact date and interest rate need to be confirmed but anticipate interest to start around April, 2014

The Arbitration

- BED and WOP could not agree on a price
- Arbitration was held through the AAA
  - Hearings in October (in Burlington) and November (in NYC)
- A panel of three arbitrators heard the case over seven (7) days of Hearings
- The Panel issued its Order on 12/10/13
  - Fair Market Value was determined to be **$16,000,000**

FMV Estimates and Arbitration Award



Results vs. Initial Estimates

- BED presented initial estimates to the city council in 2012 as part of gaining approvals to send WOP the option notice
  - Indicated that a $25 million bond may be needed if BED lost the arbitration
  - Based on preliminary work by La Capra Associates (and BED adjustments) which indicated the value of the plant should be between $11 million and $23 million

- With the $16 million award in hand BED estimates the total cost to complete the purchase would be $18 million
  - $16 million cost, plus $1.6 million reserve fund, plus $500,000 bond issuance charges, minus $100,000 deposit

- The result is within BED’s anticipated range

Bond Considerations

- BED anticipates a $12 million bond will be needed to complete the purchase
- The McNeil bond Reserve Fund becomes available in June, 2014
  - $10 million
- BED anticipates having part of a 2009 bond targeted for "Renewable purchases" available
  - $1 million to $2 million remaining from $4.9 million initial value
  - Remainder will fund solar projects and pay the arbitration costs
- Using these funds needs to be considered in light of Moody's recent rating review which listed BED's present cash position as "weak"
  - BED plans to retain sufficient cash to meet Moody's goals, while limiting new required debt

Risk Analysis - Variables Evaluated

(These are all of the drivers BED evaluated in considering the purchase)

WINOOSKI ONE TORNADO ANALYSIS					
	Type	**Low**	**Base**	**High**	**Notes**
Discount Rate	Rate	2.0%	4.0%	6.0%	
Inflation Rate	Rate	2.0%	2.5%	3.0%	Applied to O&M net property taxes
Borrowing Rate	Rate	5.0%	5.5%	6.0%	*Used for future capital costs*
Property Tax Escalation	Rate	2.0%	2.5%	5.0%	
Production	Volume	29,234	29,297	33,000	*VHB Low, VHB Base, Sansoucy*
Market Capacity Value (MW)	Volume	2,250	4,500	4,500	*Low = 50% of existing value*
REC Value	Mkt Price	$2.50	$10.00	$25.00	MA Class II
Capacity Prices	Mkt Price	IRP Low	IRP Base	IRP High	
Energy Prices	Mkt Price	IRP Low	IRP Base	IPR High	
O&M Adjustment	Cost	80%	100%	110%	
Re-licensing	Cost	50%	100%	150%	
Future CapEx	Cost	50%	100%	150%	
Lease Payments	Cost	$0	$153,000	$153,000	*Increasing by inflation*
Managemernt Fee	Cost	$0	$0	$51,500	*Increasing by inflation*

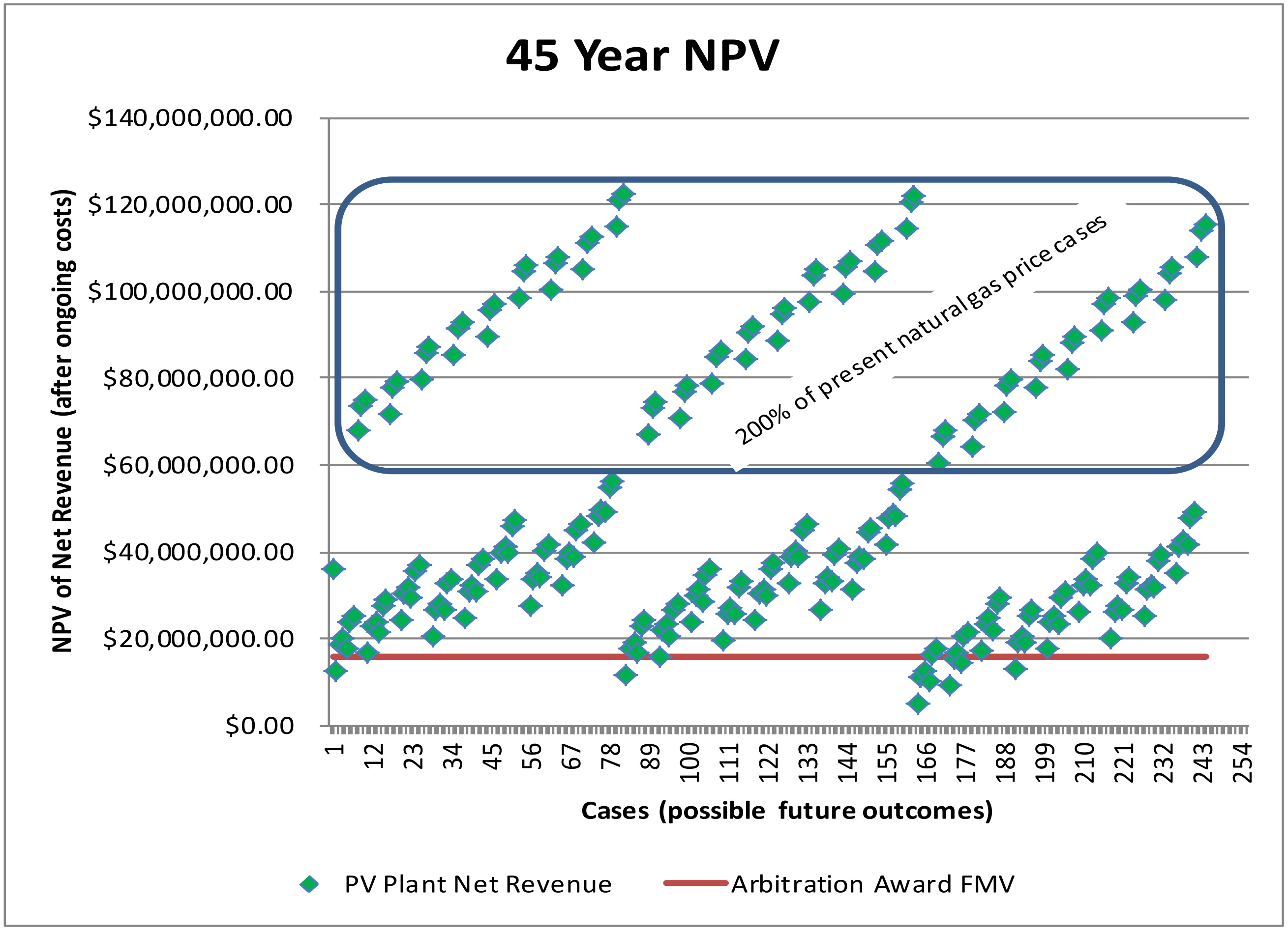
Key Variables Identified

(These are the drivers that matter)

	Low	Base	High	Weighted
Energy Prices	IRP Low	IRP Base	IRP High	114.12% Base
Production	29,234	29,297	33,000	30,262 *
REC Value	$2.50	$10.00	$25.00	$11.88
Capacity Prices	IRP Low	IRP Base	IRP High	
O&M Adjustment	80.0%	100.0%	110.0%	96.0%
Cases	243			
** Year 1 - Low case did not have level production in all years*				

Case Results

(After looking at 250+ possible future outcomes the purchase shows significant value to BED customers under nearly all cases)

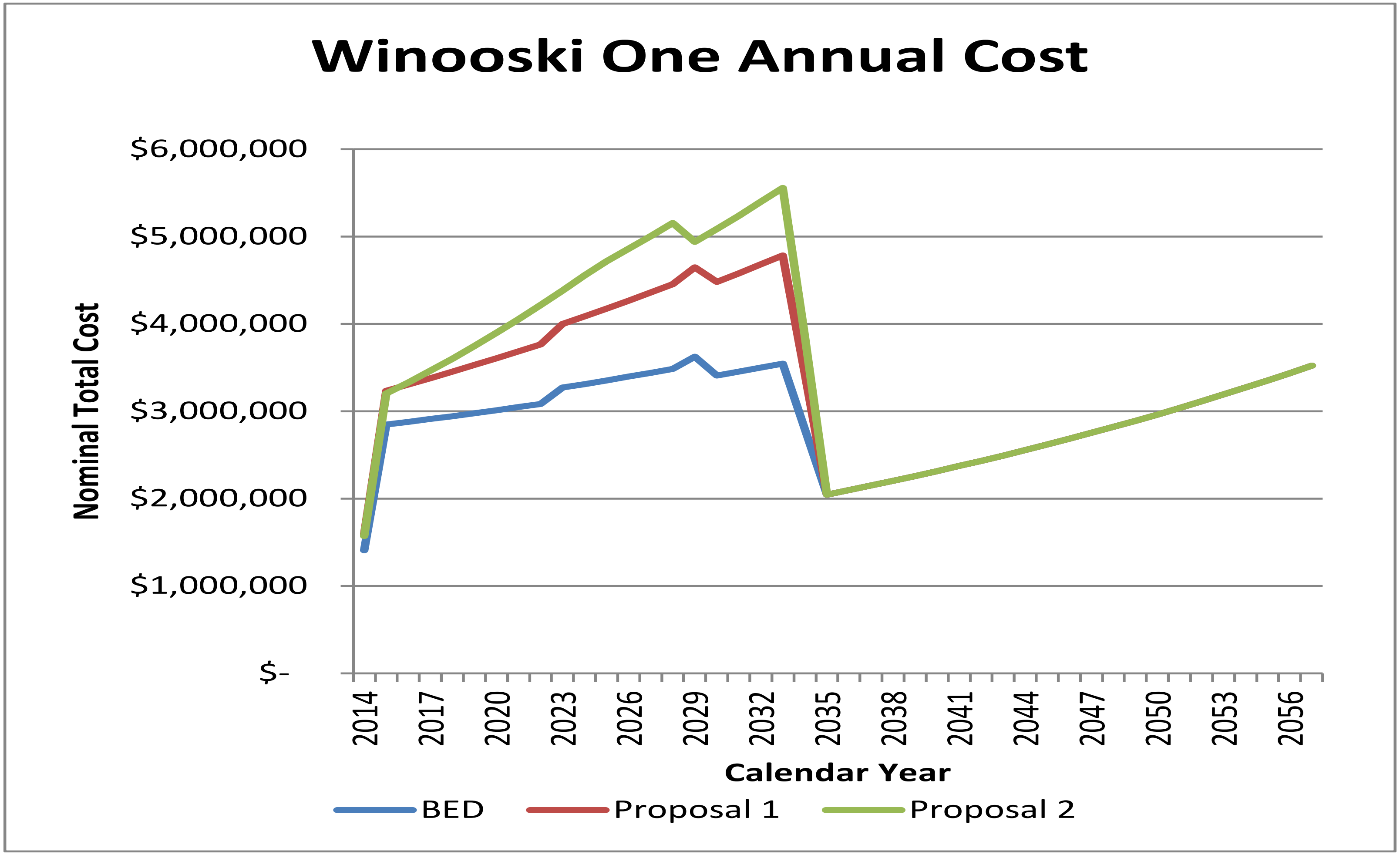


Alternatives to bonding considered

- Several parties approached BED about funding the purchase
  - They would provide capital, then lease facility from BED, and sell the output back to BED
- This would avoid the need to raise capital and for public vote on bond
  - The option agreement contains language limiting any bond vote to one try - if the vote fails the option is void
- BED evaluated the proposals from an economic and risk avoidance perspective
- Determined that the premium for all options was too high

BED vs. Third Party Ownership

(utilizing private equity adds several hundred thousand dollars per year to the cost)



Rate Impacts of Purchase

- Winooski One will provide roughly 8% of the city's energy needs
  - Looked at as an individual project rate pressures will be similar to BED's existing wind contracts

- Three future scenarios were evaluated from a rate viewpoint
  - Worst probable case (no REC value) - 2.6% impact and declining
  - Long term expected (discounted REC value) - 1.6% impact and declining
  - Today's market values - 0.2% impact and increasing slightly

- Put in the context of BED's overall cost of service, this purchase alone will not cause rate pressure
  - Any significant rate pressure would result from future declines in REC prices
  - If natural gas prices increase it will help keep rates down
  - After the bonds are paid off it will provide substantial rate support

Conclusions

- The FMV of $16 million is lower than BED anticipated the arbitration would produce, and in fact close to BED appraisals
  - It is $7 million less than the worst case BED told the city council it might be in September, 2012
- The risk analysis continues to indicate the purchase will provide long term value to BED ratepayers
  - particularly in years after the debt service is retired
  - hydro assets tend to be very long-lived
- Rate pressure in today's markets is negligible
  - If REC prices drop some rate pressure would need to be managed
  - Long term (or if natural gas markets rebound short term) rate support would be provided

Next Steps

- BED has asked Chittenden Superior Court to confirm the award
  - City approval still needed to proceed to a closing on the purchase
- Interest charges will start to accrue shortly after Town Meeting, so moving expeditiously to close would be advised
- The city council needs to approve the purchase and put a bond warning on the Town Meeting Day ballot
  - The BEC approved moving forward at their 12/11/13 meeting
  - The BOF voted to recommend the purchase on 1/6/14
  - The city council will discuss it (possible vote) on 1/13/14
  - Warning ready for the 1/27/14 council vote
  - Bond vote at Town Meeting 2014

Key Points

- This is our only opportunity to own a hydro facility in Burlington
  - Conditions will never be more favorable

- It is the last piece needed to make 100% of BED's supply purchases renewable
  - Before accounting for REC sales
  - Positions the city well for dealing with greenhouse gas regulations

- It will provide a good long term hedge to help keep rates stable

- This is a long term decision
  - Costs are equivalent to other options near term, but lower long term
  - Hydro facilities can last 100+ years

- We have an opportunity to use funds set aside in building McNeil to reinvest in another renewable resource