OCTOBER 2017 BOARD MINUTES

The regular meeting of the Bristol Tennessee Essential Services Board of Directors was held on Wednesday, October 18, 2017 at noon at 2470 Volunteer Parkway, Bristol, Tennessee.

Call to Order
Chairman Larry Clarke called the meeting to order at 12:02.

Present
Larry Clarke, Michelle Reuning, Patrick Hickie, David Akard and Gary McGeough

Staff
CEO Dr. Mike Browder, Director of Engineering Clayton Dowell, Director of Accounting and Finance Lola McVey, Director of Management Services Tara McCall.

Minutes
Mr. Clarke presented the Minutes of the September 2017 meeting. Mr. Hickie made a motion to accept the minutes, Mr. McGeough seconded the motion and they were unanimously approved.

BTES Audit for Fiscal Year Ending June 30, 2017
The CEO presented a draft of the Comprehensive Annual Financial Report (CAFR) for FY 2017. Matt Hill, CPA with Mauldin & Jenkins, LLC, joined the meeting by telephone. He explained that the audit process had gone well. He will not be able to finalize the CAFR until the State of Tennessee issues their audit on the Tennessee Consolidated Retirement System. Mr. Hill indicated that barring any issues raised by the State, they would be releasing an unmodified or clean opinion. The State of Tennessee is expected to complete their audit by the end of October and we will plan on addressing the BTES Audit with Mauldin & Jenkins, LLC at our November 2017 board meeting.

Financial Reporting
Electric Business Unit
The CEO presented the September 2017 financial reports as follows:

Through the first 3 months of FY2018 the financial reports are as follows:

<table>
<thead>
<tr>
<th></th>
<th>YTD Actual</th>
<th>YTD Budget</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total Operating Revenue</td>
<td>$22,324,600</td>
<td>$23,342,800</td>
</tr>
<tr>
<td>Total Operating Expense</td>
<td>$21,505,600</td>
<td>$22,033,400</td>
</tr>
<tr>
<td>Other Income</td>
<td>$131,300</td>
<td>$126,400</td>
</tr>
<tr>
<td>Non-Operating Expense</td>
<td>$371,200</td>
<td>$188,800</td>
</tr>
<tr>
<td><strong>Net Income</strong></td>
<td><strong>$579,100</strong></td>
<td><strong>$1,247,000</strong></td>
</tr>
</tbody>
</table>

BTES Managed Expense $2,467,900 $2,341,900

Advanced Broadband Services Business Unit
Dr. Browder reported that the number of cable/Internet/telephone customers increased in September.
Safety Report
Ms. McCall reported that BTES has completed 168,992 safe working hours as of September 30, 2017 without a lost time accident. Ms. McCall indicated that this month’s safety meeting was construction vehicle grounding. This training reviewed specifications and proper procedures for installing temporary protective grounds followed by linemen every day as they work on or near power lines. Ms. McCall also indicated that BTES is conducting First Aid and CPR (Cardiopulmonary Resuscitation) training for all personnel.

TVA Fuel Cost
The following are the TVA Fuel Cost comparisons that show the change in the residential Fuel Cost from October 2017 to November 2017. The overall system average fuel rate for November is approximately 9% lower than the three-year average November Fuel Cost. This is mainly due to lower purchased power and gas rates and higher expectations for hydro generation.

<table>
<thead>
<tr>
<th>October 2017</th>
<th>November 2017</th>
</tr>
</thead>
<tbody>
<tr>
<td>Fuel Cost</td>
<td>Fuel Cost</td>
</tr>
<tr>
<td>500 kWh</td>
<td>$9.15</td>
</tr>
<tr>
<td>1000 kWh</td>
<td>$18.30</td>
</tr>
<tr>
<td>1500 kWh</td>
<td>$27.45</td>
</tr>
<tr>
<td>2000 kWh</td>
<td>$36.60</td>
</tr>
</tbody>
</table>

CEO Report:
2018 American Public Power Association Annual Conference and Tennessee Valley Public Power Association Annual Conference:
Ms. McCall surveyed board members to determine the interest in attending the 2018 APPA and/or TVPPA Annual Conferences.

Malcolm Baldrige National Quality Award:
The Malcolm Baldrige National Quality Award recognizes U.S. organizations for performance excellence. The award promotes awareness of performance excellence as an important element in competitiveness. It also promotes the sharing of successful performance strategies and the benefits derived from using these strategies. To receive a Baldrige Award, an organization must have a role-model organizational management system that ensures continuous improvement in delivering products and/or services, demonstrate efficient and effective operations and provide a way of engaging and responding to customers and other stakeholders.

Dr. Browder reported on the BTES site visit from the Malcolm Baldrige National Quality Award and reminded the board that BTES has been the recipient of the Tennessee Center for Performance Excellence Award two times in the past. Dr. Browder indicated that for this national award there were only 14 organizations that qualified for a site visit this year. To receive a site visit, BTES’ fifty page application went through a complete review process to determine if it qualified as meeting the requirements for the award. Receiving a site visit is recognition that organizations are a finalist for the award. The Baldrige organization conducted four days of inspection/interviewing employees and board members at every level within the organization. An announcement of the award is not expected until late November or December 2017. Dr. Browder also added that being considered for this award is to recognize an organization’s excellence in operations and management performance and an honor for any organization to reach the level of the final 14 organizations, country-wide to be evaluated.
Sullivan County Department of Education

In the August board meeting, we discussed what might be a potential conflict between Kingsport Power and BTES over which one should provide electric service to a new high school in Sullivan County. BTES believes that we have the legal right to be the provider of electric service. In the September 2017 board meeting, Mr. Davenport, BTES Attorney, reviewed the various legal points, the process/procedure and the options open to BTES. He also reviewed the Sullivan County Schools discussions and their preference to use BTES as their electric provider which would give them access to BTES Internet service and football game broadcasts. The Sullivan County Board of Education applied for BTES service on September 16, 2017. Kingsport has filed a petition in the Tennessee Public Utilities Commission asking them to declare the service area boundaries of the parties. Mr. Davenport in conjunction with the outside attorneys engaged to assist in this matter, recommended that BTES use Eminent Domain to provide electric service to the new high school in an effort to expedite the process. Dr. Browder reviewed the service issue and indicated that BTES has filed a Petition for Declaratory Judgement and Eminent Domain in the Sullivan County Circuit Court and that the status of any decision is a work in progress. BTES does not expect any decision before the end of the year.

Dr. Browder presented data on Reliability and Cost of Outages for BTES and Kingsport Power using an industry standard formula. Using public data, the chart was able to compare the minutes of power outage for BTES and Kingsport Power over a three year period. The chart clearly showed the BTES/Kingsport cost of electric outages in the 2015 period (latest figures available) to cost BTES customers about $2.6 million and Kingsport Power customers about $17.5 million. Their experience with BTES and Kingsport Power’s outages is only part of the reason the Sullivan County School System has requested BTES as their service provider.

Local Retransmission Contracts:

As a cable television provider, BTES must negotiate contracts with cable content providers. BTES has received the initial proposal from the local ABC, NBC, CBS and FOX affiliates for the coming contract term. The contract would cover the four local off air channels and 6 other cable specific channels in which we have no interest. Dr. Browder reviewed the rate increases requested and their impact on pricing for our 13,000 cable customers. The rates showed an increase from 2017 cost of $1,412,000 to a 2018 cost of $2,962,000 which is an increase of $1,550,000. This represents an increase of more than 100%, more than doubling the cost to BTES.

The receipt of this information and the associated data sparked a good deal of discussion, general conversation, brain storming and suggesting potential options with no solid or definitive conclusions. The topic was discussed to a degree that the board of directors had a full understanding of the circumstances and the potential impact on how BTES would approach this issue. Dr. Browder indicated that BTES had only recently received the rate increase information and would begin their due diligence on this matter and keep the board informed of issues and/or progress.

Board Comments:

There were no Board comments

There being no further business to come before the Board, the meeting was adjourned. The next meeting is scheduled for Wednesday, November 15, 2017 at Noon.

Respectfully Submitted,

Gary McGough
Secretary