

BOARD OF WATER AND LIGHT
REO Town Depot
1201 S. Washington Ave. - Lansing, Michigan
November 17, 2015 - 5:30 p.m.
BOARD MEETING AGENDA

- 1. Roll Call**
- 2. Pledge of Allegiance**
- 3. Special Ceremony Check Presentation:**
 - a. McLaren Greater Lansing Healthcare Foundation
- 4. Approval of Minutes**
 - a. Regular Board Meeting – September 22, 2015
- 5. Public Comments**

Members of the public are welcome to speak to the Board on any agenda subject. Anyone wishing to comment on any matter not on the agenda may do so immediately prior to adjournment.
- 6. Communications**
 - a. Solicitation Letter from Midcontinent MCN LLC, A GRIDLIANCE & Blackstone Company regarding Electric Power Transmission Projects
- 7. Committee Reports**
 - a. Finance Committee Meeting (October 20, 2015) – Ken Ross, Chairperson
 - b. Finance Committee Meeting (November 10, 2015) – Ken Ross, Chairperson
 - c. Human Resources Committee (November 10, 2015) – Tony Mullen, Chairperson
 - d. Pension Fund Trustees (November 17, 2015) - David Price, Board Chairperson
- 8. Manager Recommendations**
- 9. Unfinished Business**
- 10. New Business**
- 11. Resolutions/Action Items**
 - a. Procurement Policy
 - b. PA 152/Employee Contribution to Medical Benefit Plan
 - c. Acceptance of the 2015 Audited Financial Statements for DB, DC and VEBA Pension Plans
 - d. 2016 Regular Board Meeting Schedule
- 12. Manager's Remarks**
- 13. Commissioners' Remarks**
- 14. Motion of Excused Absence**
- 15. Public Comments**

Members of the public are welcome to speak to the Board on any Board of Water and Light subject.
- 16. Adjournment**



MINUTES OF THE BOARD OF COMMISSIONERS' MEETING

LANSING BOARD OF WATER AND LIGHT

September 22, 2015

The Board of Commissioners met at the BWL Headquarters-REO Town Depot located at 1201 S. Washington Ave., Lansing, MI, at 5:30 p.m. on Tuesday, September 22, 2015.

Chairperson David Price called the meeting to order at 5:30 p.m.

Present: Commissioners Dennis M. Louney, Anthony McCloud, Tony Mullen, David Price, Ken Ross, Tracy Thomas, Sandra Zerkle. Non-Voting Commissioners Mike Froh (Meridian Township), Bill Long (Delta Township), Bob Nelson (East Lansing).

Absent: None

The Corporate Secretary declared a quorum present.

Commissioner Nelson led the Pledge of Allegiance.

APPROVAL OF MINUTES

Motion by Commissioner Ross, Seconded by Commissioner Mullen to approve the Regular Board Meeting minutes of July 28, 2015.

Action: Motion Carried

PUBLIC COMMENTS

MEMBERS OF THE PUBLIC ARE WELCOME TO SPEAK TO THE BOARD ON ANY AGENDA SUBJECT. ANYONE WISHING TO COMMENT ON ANY MATTER NOT ON THE AGENDA MAY DO SO IMMEDIATELY PRIOR TO ADJOURNMENT.

Calvin Jones, Director of Governmental Affairs, Community Service and Public Affairs stated his support for the appointment of Richard R. Peffley to the Charter Position of General Manager.

COMMUNICATIONS

- a. Email from Bill Conner Re: Assessment of Convenience Fee

Received and Placed on File

- b. Email from William Zimmerlee Re: Timeline for Pole Usage Permit

Received and Placed on File

Commissioner Nelson spoke about the email regarding the pole usage permit. He stated his concerns about the delay of usage permits in the East Lansing area for light speed service and suggested that the BWL Legal Counsel review the matter to determine if there is any anti-trust exposure on BWL's part.

Commissioner Froh posed a question on whether the BWL can acquire information on what the permitting process entails in its entirety, and whether such standards are reasonable in comparison to standards of other carriers.

COMMITTEE REPORTS
FINANCE COMMITTEE
September 8, 2015

The Finance Committee of the Board of Water and Light met at the BWL Headquarters – REO Town Depot located at 1201 S. Washington Ave., Lansing, MI, at 7:10 p.m. on Tuesday, September 8, 2015.

Finance Committee Chairperson Ken Ross called the meeting to order and asked the Corporate Secretary to call the roll.

Present: Commissioners Ken Ross, Dennis M. Louney, Tracy Thomas and David Price. Also, present Commissioners Tony Mullen and Non-Voting Member: Bill Long (Delta Township).

Absent: None

The Corporate Secretary declared a quorum.

Public Comments

None

Approval of Minutes

Motion by Commissioner Thomas, Seconded by Commissioner Price, to approve the Finance Committee meeting minutes of July 14, 2015.

Action: Motion Carried

External Audit Communication Presented by Plante & Moran

Heather Shawa-DeCook, Chief Financial Officer (CFO) introduced external auditor Doug Rober, Partner with Plante Moran (P&M) and Marie Stiegel, CPA with P&M, who reviewed and presented the External Auditing Communication.

Mr. Rober said that Plante Moran audited the enterprise fund and the three pension trust funds, which make up the Defined Contribution Plan (DC Plan), Defined Benefit Plan (DB Plan), and the VEBA Benefit Trust. In each of the audits, P&M's opinion of the audits is Unqualified.

Marie Stiegel reviewed Audit PowerPoint Presentation that including the following:

- Operating Revenue – Four Year Comparison
- Operating Expenses – Four Year Comparison
- Operating Income
- Sales of Kilowatt Hours – Five Year Trend
- Kilowatt Hours Generated Versus Produced – Five Year Trend
- Significant Power Cost
- Projected Principal and Interest Payments – Five year Projection
- Revenues, Expense and Net Income by Utility
- Enterprise fund Balance sheet

Ms. Stiegel covered the required communication for those charged with governance, the end-out-audit letter, which outlines best practices, recommendations and upcoming accounting standards and recommendations. Ms. Stiegel noted that there were no significant changes to the audit plan from what was previously communicated.

Concluding the Auditors report there was a questions and answers session with the auditors responding to a series of questions concerning the audit findings as well as confirmation of complete cooperation exemplified by Board of Water & Light's management.

Motion by Commissioner Price, Seconded by Commissioner Thomas to forward the proposed resolution for the acceptance of the FY 2015 audited financial statements, to the full Board for consideration.

Action: Motion Carried

July Preliminary Financial Highlights

Heather Shawa-DeCook, Chief Financial Officer (CFO) presented preliminary financial numbers to the Board as such: revenue 31.6 million; net income, 5 million; cash at hand, 82.7 million; cash position at 8/28, 87.6 million.

Review of Audit Quarterly Open Issues List

Heather Shawa-DeCook, Chief Financial Officer (CFO) reported the open issues list from BWL's internal audits to the Board.

STATUS OF MANAGEMENT RESPONSES TO AUDIT REPORTS AS OF 7/31/15

Open Issues

- #12 Records Retention Management Audit (March 2014) - Internal Audit found that records on hand did not always correspond with the Record Retention Schedule; namely, a portion of I-9 forms and some asbestos bills of lading.

Status: Regarding I-9 forms, the Human Resources Department is in the process of ensuring that they are on file for all active employees. This project is ongoing with an expected completion date of 12/31/15. During July, 44% of needed I-9 forms were collected. Concerning the appropriate retention schedule for the asbestos bills of lading (a.k.a. asbestos manifests), it will be reviewed and updated as part of the overall review of the Record Retention Schedule. Enterprise Content Management anticipates an updated master document will be sent for executive management review by October 2015. Approval by the State of Michigan is expected in early 2016.
- #13 Records Retention Management Audit (March 2014) – The Internal Auditor determined that records on hand in departments did not always correspond with the Record Retention Schedule.

Status: Enterprise Content Management is reviewing the existing Record Retention Schedule with the appropriate departments and cataloging all proposed revisions. Enterprise Content Management anticipates an updated master document will be sent for executive management review by October 2015. Approval by the State of Michigan is expected in early 2016.
- #15 Accounts Payable Audit (April 2014) - The audit revealed the existence of more than 14,000 vendor master entries. Within these entries are duplicates and vendors that have been blocked. Further review and analysis was recommended.

Status: Accounts Payable (AP) is focusing their efforts on confirming information for current payees (including W-9 forms) and working jointly with Purchasing in identifying new vendors to set up as new payees only when warranted. AP is also working jointly with the IT Department in determining which vendor entries should be retained or blocked on SAP due to inactivity.
- #16 Accounts Payable Audit (April 2014) - The Goods Receipt/Invoice Receipt account balance is higher than previous years. Internal Audit recommends that management focus on resolving mismatched items in this account and clear unresolved documents older than a particular age.

Status: To reduce the recurrence of these types of issues, Accounts Payable (AP) has developed a refresher training course on the system receiving function for presentation to all users and, also, anticipates automated email notification becoming available in FY16. Also, to address the current account balance and clear older items, AP is working with departments to resolve goods and invoice receipts older than 15 months and on reducing the occurrence of invoices 45 days or older. By their nature, the occurrence of these events and the resulting efforts to address them will be ongoing with no specific, final completion date, although it is anticipated that any increase in frequency or amount will be related to normal seasonal activity and not to a lack of oversight and effort to resolve them.
- #17 Close the Books Audit (August 2014) - The Internal Auditor determined that accounting procedures should be updated and stored in a central location, with consideration given to the use of a general accounting manual.

Status: General Accounting is continuing to work on centralizing and updating all current procedures. Updates to the general accounting manual are approximately 50% complete, however, General Accounting's work efforts on these projects have been delayed due to fiscal year end work demands, along with unanticipated staffing changes. Changes are expected to be complete by 3/31/16.
- #20 Materials Inventory Management Audit (January 2015) - The Internal Auditor found access to two inventory related SAP system transaction types to be excessive.

Status: The removal of unnecessary access has been requested of the IT Department by Purchasing & Warehousing (PW). PW has also taken it upon themselves to develop an additional control, in the form of a periodic report run to monitor a particular situation where duties cannot always be adequately segregated due to limited availability of backup personnel in non-routine instances. In addition, PW, with the assistance from Internal Control, is developing a process to ensure that outdated and inappropriate user access is identified and corrected on an ongoing basis. To date, a draft report has been developed by Internal Control and is being reviewed by PW. Once finalized, this review will be conducted semi-annually.

- #23 Annual Projects Management Audit (July 2015) *NEW* - Internal Audit determined that the project close-out process did not always include a documented narrative explaining why actual costs exceeded estimates.

Status: The project close-out process is being enhanced by consistently providing a narrative explanation when project costs exceed estimates by a threshold of 15% and \$50,000. Implementation by the Customer Projects and Electrical System Integrity areas is complete. The Water Distribution area estimates an implementation date of 10/1/15.

- #24 Annual Projects Management Audit (July 2015) *NEW* - Internal Audit determined that the project close-out process did not always identify use of contingency amounts.

Status: The project close-out process is being enhanced by consistently identifying use of contingency amounts when project costs exceed estimates by a threshold of 15% and \$50,000. Implementation by the Customer Projects and Electrical System Integrity areas is complete. The Water Distribution area estimates an implementation date of 10/1/15.

Closed Issues (since last report of 5/31/15)

- #18 Materials Inventory Management Audit (January 2015) - Internal Audit's physical inventory counts at the main warehouse revealed some differences from book balances.

Status: Purchasing & Warehousing (PW) has, and continues to, emphasize to PW staff and user departments the importance and criticality in completing the proper paperwork and forms. PW has also initiated relationship-building efforts with their user departments, to enhance communications and accountability, and explored and implemented other options to enhance control over inventory. PW continues to count high-dollar, fast moving inventory items more frequently than once a year and will begin to count yard items on a monthly basis. Within the past year, some yard items, such as transformers, have been moved to a secured offsite warehouse. Possible future technology enhancements to further improve the process will be supported with a business justification and subject to the capital project approval process.

- #19 Materials Inventory Management Audit (January 2015) - Internal Audit noted issues at two satellite inventory locations and recommended tighter controls at satellite inventory locations in general, citing the alternative of consolidation of inventories at the central warehouse.

Status: Satellite inventory is no longer being maintained at the REO and Eckert locations. Inventory at the Dye and Erickson plants has been reduced to a few critical items.

- #21 Special BOC Requested Audit (April 2015) - The Internal Auditor found that more clarity is needed in Board policy regarding the reporting of capital budget variances. Specifically, with regard to a clarification from the Board of Commissioners as to when, for a multi-year project in particular, a budget variance exceeding the defined threshold should be reported to and approved by the Board.

Status: Board Policy 15-02 was amended by Board Resolution 2015-07-05, which provides the necessary clarification.

- #22 Special BOC Requested Audit (April 2015) - The Internal Auditor found that the former General Manager's procurement card expenses were not adequately reviewed or supported and that requirements could be clarified.

Status: Board Policy 7-05 was amended by Board Resolution 2015-07-04, which provides the necessary clarification.

There was a lengthy discussion after each reported open issue.

Internal Audit Process/2015-16 Audit Plan Modification

Internal Auditor Phil Perkins, presented an overview of the following information:

- Process Events/Milestones
 - Preliminary Risk Assessment and Scoping
 - Audit Announcement/ Opening Conference
 - Field work Phase
 - Pre-closing Meeting
 - Closing Conference
 - Audit Reporting
 - Audit Follow-up

FY2016 Audit Plan- Request for Change Approval

Planned Audits:	Estimated Hours
Follow-up of Selected CRT/MPSC/BWL Recs.	300
Billing	500
IT – Information Security Policies	300
Training & Development	300
Safety-Management Hiring Process	400
IT – Manage Changes	400
Other Engagements:	
Surprise Cash Counts (2)	40
Time Reporting Reviews (2)	160
Central Maintenance & Fleet Time/Resource Reporting	100
Other Consulting (NERC/CIP Compliance, IRP/Strat Plan)	100
Total Estimated Hours	2,600

Motion by Commissioner Price, Seconded by Commissioner Louney to accept the change the Internal Auditor's FY 2016 Audit Plan to include the Hiring Process.

Action: Motion Carried

Public Comment

None

Other

Commissioner Louney congratulated Commissioner Ross on doing a good job as a new Finance Chair

Adjourn

On Motion by Commissioner Price, Seconded by Louney, the meeting adjourned at 8:53 p.m.

Respectfully submitted
Ken Ross, Chair
Finance Committee

COMMITTEE OF THE WHOLE
September 8, 2015

The Committee of the Whole of the Lansing Board of Water and Light met at the BWL Headquarters-REO Town Depot located at 1201 S. Washington Ave., Lansing, MI, at 5:30 p.m. on Tuesday, September 8, 2015.

Committee of the Whole Chair Dennis M. Louney called the meeting to order and asked the Corporate Secretary to call the roll.

Present: Commissioners Dennis M. Louney, Anthony McCloud, Tony Mullen, David Price, Ken Ross and Tracy Thomas and Non-Voting Member: Bill Long (Delta Township)

Absent: Commissioner Sandra Zerkle, Non-Voting Commissioners Michael Froh (Meridian Township) and Robert Nelson (East Lansing).

Corporate Secretary declared a quorum.

Public Comments

None

Approval of Minutes

Motion by Commissioner McCloud, Seconded by Commissioner Mullen to approve the Committee of the Whole meeting minutes of July 14, 2015.

Action: Motion Carried

North American Electric Reliability Corporation (NERC) Update

Interim General Manager, Dick Peffley, introduced Robert Lalonde, Manager of Bulk Power, who provided the Commissioners with a North American Electric Reliability Corporation (NERC) update. Mr. Lalonde provided historical information on the formation of NERC and how it led to mandatory compliance with developed

standards approved by the Federal Energy Regulatory Commission (FERC). He stated that NERC is an authority assigned with ensuring the reliability of the bulk electric system.

Mr. Lalonde's presentation included information on the responsibilities for the Internal Compliance Program, developed to measure and maintain compliance to standards applicable to the Board of Water & Light, as well as information on upcoming changes to the Critical Infrastructure Protection standards that require greater adherence on the part of the BWL.

Air Regulation Update

Interim General Manager, Dick Peffley, introduced Mark Matus, Manager of Environmental Services, who provided the Committee with an Air Regulation update. Mr. Matus explained that Mercury and Air Toxics Standards (MATS) is a 2011 rule from Environmental Protection Agency (EPA), in which the BWL has been working to become compliant by the deadline of April 2016.

Mr. Matus stated that in June of 2015, the U.S. Supreme Court ruled that the EPA has missed a critical step in the promulgation process of the MATS rule and as such, it has been remanded back to the Circuit Court of Appeals, who will decide whether to vacate the rule. In the meantime, Mr. Matus stated that BWL would use this time to complete the installation of equipment needed to comply with the MATS rule. Erickson station already has an activated carbon injection (ACI) system, which is a major component for mercury compliance, and the BWL is in the process of installing an ACI system at Eckert station to become MATS compliant with testing of the system expected to begin in January of 2016.

There was a lengthy discussion regarding whether the installation of the said system is reasonable considering Eckert station is nearing its useful life. Mr. Matus stated that it is reasonable to install the system because the Eckert station is needed to manage the BWL's distribution for the next 5 years. Commissioner Ross noted that the outcome of installing the equipment needed for compliance, whether the BWL is actually required to install it by the MATS rule, or not, is that we have cleaner air. Additionally, Mr. Matus explained that with the said system in place, the BWL will achieve 90% removal of mercury when the system is operating.

Community Review Team (CRT) Update

Interim General Manager Dick Peffley stated that he, Chair Price, Commissioner Long and George Stojic, Executive Director of Strategic Planning and Development, met to form a plan of how to wrap up the Community Review Team's (CRT) Recommendations. Mr. Peffley stated that his team suggested to hold a special board meeting in October; and to extend an invitation to the media, customers, General McDaniel and his review team, to attend the meeting with the intent of the BWL highlighting what has been accomplished since the ice storm and how the CRT's recommendations have been implemented with the intent of, or a way to officially conclude the CRT matter.

There was lengthy discussion regarding the CRT matter, with Commissioner Chair Price concluding by stating that the suggested meeting is a great idea and is a very good way to get closure on the CRT matter, that the BWL has done a good job with implementing the CRT recommendations and is the BWL is a different organization today because of it.

Educational training for the Board of Commissioners

Committee of the Whole Chair Louney discussed the subject of exploring different educational options for the Board of Commissioners. He presented the Commissioners with a brochure containing information on Janice Beecher, a professor at Michigan State University (MSU), and a nationally noted authority, who teaches the "Basics of Utility Regulation and Ratemaking" onsite.

Commissioner Chair Price stated that he finds the presented information to be a great idea and stated that this would be something to explore and consider for future educational training.

Community Strategy for outside governmental agencies

Interim General Manager, Dick Peffley, introduced Calvin Jones, Director of Governmental Affairs, and Community Services, who informed the Board of his daily roles and responsibilities with communicating with county, local, state and federal officials. Mr. Jones said that he is aware of their (governmental entities) concerns, and works hard to keep lines of communications open on the latest developments of what the BWL does and vice versa. Mr. Jones stated that it is his pleasure to stay proactive in his communication with other governmental agencies so that good working relationships are established.

There was a lengthy discussion regarding Commissioner's communication with other respected surrounding government entities. It was suggested the BWL Board visit and rotate meeting in surrounding communities and invite all entities to attend the rotating meetings, as this would provide a platform for them to discuss matters and issues affecting their specific areas.

Committee of the Whole Chair Louney stated that he would discuss this matter with Regional Representatives and draft proposed procedures for communicating. The proposed procedures would then be presented to the entire Board at a future Committee of the Whole meeting.

Joint Work Meeting Resolution BWL/Lansing City Council

Board Chair Price stated that recently the Board of Water & Light Board of Commissioners and Lansing City Council had a great joint meeting. Presented at the joint meeting was a resolution establishing yearly meetings between the two entities. Board Chair Price asked that the Committee of the Whole forward the resolution to the full Board for consideration.

Motion by Commissioner Price, Seconded by Commissioner Thomas to forward the proposed resolution to the full Board for consideration.

Action: Motion Carried

Public Comment

None

Other

Interim General Manager Dick Peffley discussed an email that was sent to the Commissioners regarding the Groesbeck area, where a new light speed is being installed. A customer questioned why the process takes 6 months to complete. Mr. Peffley explained that BWL's procedures require 90 days to design and another 90 days to implement.

Excused Absence

Motion by Commissioner Mullen, Seconded by Commissioner Price, to excuse Commissioners Froh, Nelson and Zerkle from tonight's meeting.

Action: Motion Carried

Adjourn

On Motion by Commissioner Price, Seconded by Commissioner Thomas, the meeting adjourned at 6:58 p.m.

Respectfully Submitted
Denis. M. Louney, Chair
Committee of the Whole

HUMAN RESOURCESS COMMITTEE
September 15, 2015

The Human Resources Committee of the Lansing Board of Water and Light (BWL) met at the BWL Headquarters-REO Town Depot located at 1201 S. Washington Ave., Lansing, MI, at 5:30 p.m. on Tuesday, September 15, 2015.

Human Resources (HR) Committee Chairperson Tony Mullen called the meeting to order and asked the Corporate Secretary to call the roll. The following members were present: Commissioners Tony Mullen, Anthony McCloud, Alternate Member Dennis M. Louney and Alternate Member Tracy Thomas. Also present: Commissioners David Price, Non-Voting Commissioners Mike Froh (Meridian Township), Bill Long (Delta Township) and Robert Nelson (E. Lansing).

Absent: Commissioner Sandra Zerkle.

Public Comments

None

Approval of Minutes

Motion by Commissioner McCloud, Seconded by Commissioner Louney, to approve the Human Resources Committee meeting minutes of July 28, 2015.

Action: Motion Carried.

Charter Position Appointment for General Manager – Resolution

HR Committee Chair Mullen introduced the resolution for the appointment of Richard R. Peffley as the BWL General Manager, removing Interim from his current title.

Motion by Commissioner McCloud, Seconded by Commissioner Louney, to forward the proposed resolution appointing Richard Peffley (Dick) to the Charter Appointed Position of General Manager to the full Board for consideration.

There was a lengthy discussion regarding the hiring and appointment process for the General Manager.

Action: Motion Carried.

Commissioner Price disseminated a proposed employment contract agreement for the General Manager to the Commissioners and introduced Attorney Melissa Jackson, of Foster Swift, who reviewed the details of the proposed employment contract.

Motion by Commissioner McCloud, Seconded by Commissioner Louney, to forward the proposed/draft employment contract of the General Manger to full Board for consideration.

Action: Motion Carried.

Excused Absence

Motion by Commissioner McCloud, Seconded by Commissioner Louney, to excuse Commissioner Zerkle from tonight's meeting.

Action: Motion Carried

Public Comments

None

Adjourn

Motion by Commissioner McCloud, Seconded by Commissioner Thomas, the meeting adjourned at 6:33 p.m.

Action: Motion Carried

Respectfully Submitted
Tony Mullen, Chair
Human Resources Committee

MANAGER'S RECOMMENDATIONS

There were no Manager's Recommendations

UNFINISHED BUSINESS

There was no Unfinished Business

NEW BUSINESS

There was no New Business

RESOLUTIONS

RESOLUTION 2015-09-01

**JOINT WORK RESOLUTION OF THE LANSING CITY COUNCIL
AND THE BOARD OF WATER AND LIGHT COMMISSIONERS**

WHEREAS, the Lansing City Charter delegates to the Board of Commissioners (Board) of the Board of Water and Light (BWL) the responsibility for the administrative, executive, and policy-making authority over the operation of those City utility services assigned to it, and

WHEREAS, the Lansing City Charter recognizes that the Board is responsible to the Mayor and to the City Council for the provisions of those City Utility services in a manner consistent with best practices, and

WHEREAS, the City Council and the Board desire to develop a more formal cooperative relationship between each other, and

WHEREAS, the cooperation between the City Council and the Board would lead to better communication and more beneficial coordination between the City Council and the Board.

BE IT RESOLVED, that the City Council and the Board shall hold two joint work meetings per year. The President of the Council and the Chair of the Board shall schedule the meetings. The first meeting will be held after January following the election of Council Leadership, the second meeting will be held after July following the election of the Board of Water & Light's Officers (with additional meetings scheduled as necessary).

FURTHER RESOLVED, that the agenda of each of the aforementioned meetings shall include recommendations from both entities.

FURTHER RESOLVED, that the Chair of the Board and the President of the Council shall, on a regular basis, communicate to each other issues that are beneficial for the Council members and the Board members to discuss with their respective counterparts in their one-to-one interaction.

Motion by Commissioner Thomas, Seconded by Commissioner Ross to approve the Resolution for Joint Work Meetings with the Lansing City Council.

Action: Carried Unanimously

RESOLUTION 2015-09-02

Fiscal Year 2015 Audited Financial Statements
of the Enterprise Fund and Pension Fiduciary Funds

RESOLVED, that the fiscal year 2015 Audited Financial Statements of the Board of Water and Light have been reviewed and are hereby accepted as presented.

FURTHER RESOLVED, that the Corporate Secretary is hereby directed to file a copy of the fiscal year 2015 Audited Financial Statements of the Board of Water and Light and the report on auditing procedures with the State Treasurer as required by the Uniform Budgeting and Accounting Act (Public Act 2 of 1968, as amended) no later than December 31, 2015.

FURTHER RESOLVED, that the Corporate Secretary is hereby directed to file a copy of the fiscal year 2015 Audited Finance Statements of the Board of Water and Light with the City of Lansing.

Motion by Commissioner McCloud, Seconded by Commissioner Mullen, to accept the Audited Financial Statements for FY 15.

Action: Carried Unanimously

RESOLUTION 2015-09-03

Appointment of Richard R. Peffley to the Charter Appointed Position of General Manager

WHEREAS, on January 13, 2015 the Lansing Board of Water & Light's (BWL) Board of Commissioners appointed Richard R. Peffley to serve as the BWL's Interim General Manager;

WHEREAS, the current Employment Agreement between Interim General Manager Richard R. Peffley and the BWL will terminate automatically once a permanent General Manager has been hired.

WHEREAS, the BWL Board of Commissioners desire to retain Mr. Peffley as the BWL's General Manager until otherwise determined by the BWL Board of Commissioners, effectively removing the "interim" title.

RESOLVED, Richard R. Peffley is hereby appointed to serve as the BWL's General Manager.

FURTHER RESOLVED, the term of the Employment Agreement between Mr. Peffley and the BWL shall begin September 22, 2015 and expire on July 31, 2016.

Motion by Commissioner Mullen, Seconded by Commissioner Ross to approve the Resolution appointing Richard R. Peffley to the Charter appointed position of General Manager.

Action: Carried Unanimously

MANAGER'S REMARKS

General Manager Peffley thanked all of the BWL employees for their contribution and support with the funeral fallen firefighter Dennis Rodeman. Mr. Peffley specifically thanked Trent Atkins, BWL's Director of Emergency Management for his help with logistic planning for the funeral.

General Manager, Dick Peffley also informed the Board that the BWL recently demonstrated a regional leadership day-long training of Emergency Responders at the East Lansing Public Library.

COMMISSIONERS' REMARKS

Commissioner Louney congratulated Dick Peffley on his appointment of General Manager. He stated that the BWL has the right person leading the BWL and the utility company will be better because of his leadership.

Commissioner Thomas congratulated General Manager Peffley on his appointment and thanked him for his humbleness.

Chair Price stated that he is looking forward to working with Mr. Peffley and that he is confident that his leadership will bring even more stability to the BWL.

EXCUSED ABSENCE

None

PUBLIC COMMENTS

Mike Hamel, Assistant Fire Chief, thanked the Lansing Board of Water & Light, and its entire staff for coming together with the Lansing Fire Department to honor the fallen firefighter, Dennis Rodeman.

Brad VanGuilder, of Sierra Club asked the Board that transparency be reflected in the Integrated Resource Process (IRP).

ADJOURNMENT

On motion by Commissioner McCloud, Seconded by Commissioner Mullen the meeting adjourned at 6:01 p.m.

M. Denise Griffin, Corporate Secretary

Preliminary Minutes filed (electronically) with Lansing City Clerk: October 2, 2015

Official Minutes filed (electronically) with Lansing City Clerk:

M. Denise Griffin
Lansing Board of Water & Light, LBWL
Corporate Secretary
1201 S. Washington Ave.
Lansing, MI 48910

October 29, 2015

Re: Midcontinent MCN LLC, A GRIDLIANCE & Blackstone Company, Offer to LBWL

Ms. Griffin,

GRIDLIANCE was formed and is dedicated to co-developing and co-owning the needed electric power transmission facilities and projects for not-for-profit utilities and sharing in regionally allocated MISO projects.

Midcontinent MCN, a regulated utility, proposes to immediately begin assisting LBWL with its future and potential electric power transmission projects as you will see in the attached PowerPoint offer. It is a unique offer we believe the Board of Commissioners, Committee as a Whole, should review it immediately. We hope the LBWL BOC will agree to then schedule MCN for Q&A at your upcoming November 17th full Board of Commissioners meeting.

Our offer is unique; no other entity can duplicate it. We can provide references from 2015 recent utility-partners: The Missouri Joint Municipal Electric Utility Commission, MJMEUC, the Oklahoma Municipal Power Agency, OMPA, the City of Nixa, Missouri, and Tri-County Electric Cooperative, Hooker, OK.

The timing of our request for the 11/17 BOC meeting is timely because we believe it is to the benefit of LBWL to immediately understand MCN's offer and background yet in 2015. MCN and two other Michigan municipal utilities intend to complete negotiations and agreements in 2015 for a similar offer. Those are: the Michigan Public Power Agency, of which LBWL is a member, and the Michigan South Central Power Agency. Both are in ongoing negotiations with MCN. They may be contacted as references as well.

I will make myself available at the November 17 LBWL Board of Commissioners meeting, on site, awaiting your invitation for Q&A or further explanations, in any event. With sufficient notice, other executives could be present as well.

Sincerely,

Joe Dudak

Joseph (Joe) Dudak, Vice President, MISO-North

Midcontinent MCN LLC, A GRIDLIANCE & Blackstone Company

Mobile: 734.395.6974

Email & PDA: JDudak@GRIDLIANCE.com

Michigan Office: 7390 N. Mistwood Drive, White Lake, MI 48383

Michigan Office: 248.676.0557

Chicago Office: 312.283.5228

Cc: Carl Huslig, SVP Business Development; Beth Emery, SVP & General Counsel

FINANCE COMMITTEE

October 20, 2015

The Finance Committee of the Board of Water and Light met at the BWL Headquarters – REO Town Depot located at 1201 S. Washington Ave., Lansing, MI, at 6:00 p.m. on Tuesday, October 20, 2015.

Finance Committee Chairperson Ken Ross called the meeting to order and asked the Corporate Secretary to call the roll.

Present: Commissioners Ken Ross, Dennis M. Louney, Tracy Thomas and David Price. Also, present Commissioners Tony Mullen, Sandy Zerkle and Non-Voting Members: Michael Froh (Meridian Township), Bill Long (Delta Township) and Bob Nelson (East Lansing).

Absent: None

The Corporate Secretary declared a quorum.

Public Comments

None

Approval of Minutes

Motion by Commissioner Price, Seconded by Commissioner Thomas, to approve the Finance Committee meeting minutes of September 8, 2015.

Action: Motion Carried

August Financial Overview

Heather Shawa-DeCook, Chief Financial Officer (CFO) highlighted cash flow, year-to-date revenues and year-to-date net income, to wit: cash flow and operating cash continues to grow; the BWL is at 11% over its June-end cash position. August year-to-end revenues are slightly under budget, mostly due to reduction in wholesale revenue as a result of unplanned outages. Ms. Shawa-DeCook stated that this trend is expected to continue through October.

BWL's net income is exceeding budget due to employee benefit expenditure bills that are lagging one month behind; true numbers will be reflected in in September Q1 results.

Update on Transition of Pension Investment Consultants

Heather Shawa-DeCook, Chief Financial Officer (CFO) stated Bank of America Merrill Lynch has been BWL's investment advisor with respect to the investment of the Defined Benefit (DB) and VEBA funds. As a result of recent legislative changes in the financial industry, Bank of America Merrill Lynch has made a corporate

decision to exit the municipal pension fund advisory business. BWL sent out a Request for Proposal (RFP), which returned 3 qualified bids; each firm was assessed by a BWL 6 person evaluation team and a recommendation was made and approved internally. BWL intends to introduce the new firm at the BWL's Pension Trustees meeting scheduled for November 10th 2015.

Financial Summary Overview

Heather Shawa-DeCook, Chief Financial Officer (CFO) introduced Scott Taylor, Manager of Finance, who provided a financial summary overview with specific focus on cash balance.

**FINANCIAL SUMMARY FOR
 August-15**



Cash Balance

	Month End Balance	Target	Difference	%
O&M Fund	\$ 90,807,255	\$ 80,987,574	\$ 9,819,681	11%
Days Cash on Hand	172	150-249		
Credit Rating	AA-	AA-		
Debt Service Coverage - Rating Agencies	1.64	2.00-2.49		
Debt Service Coverage - Bond Covenants	2.23	1.25		
Total Cash	\$ 212,044,817 =	\$ 90,807,255	+ \$ 91,638,127	+ \$ 29,599,435
		O&M Fund	Designated Funds	Restricted Funds

In summary, Mr. Taylor stated that BWL's monthly financial summary, and total operating cash balance is broken down into three main types of funds, to wit: operating funds for general use, designated funds for special purposes, and restricted funds for bond repayment.

BWL's days cash on hand and debt service coverage measures are important to credit rating agencies. BWL's targets are set based on expectations for a double "A" rated utility.

BWL has had its credit rating of AA- since 2003, which remains a good target.

Outage Management System (OMS) Internal Audit Results

Internal Auditor Phil Perkins presented the OMS internal audit findings. The Committee reviewed the Internal Auditor's Audit Findings thoroughly page by page with an opportunity for questions and answers along the way.

AUDIT REPORT 2015-07

DESCRIPTION OF ACTIVITIES

An Outage Management System (OMS) is used by the Lansing Board of Water & Light (BWL) to receive power outage and system trouble information from various sources; provide customers, BWL employees and management with up-to-date outage restoration information; assign work crews to outage locations based on priority factors; and, provide outage statistics and status in a ready format for media and public consumption. The current OMS has been in use since February 2013, with plans to procure a replacement system in FY 2016.

Although the system owner and primary user of OMS is the Electric System Operations Department, other groups such as customer services representatives and line repair crews use OMS to enter outage information and count on OMS to report current information on outages and restoration times.

During the December 2013 ice storm power outage that affected over 40,000 BWL customers, the OMS failed to perform a critical function to isolate specific "line down" locations needing restoration and create a work order for the appropriate locations. Therefore, a decision was made to shut down OMS and use a manual backup system during the outage for this purpose. There were also problems with the call-in system that did not relate directly to OMS but, since OMS was taken off-line until later in the outage period, it was difficult for BWL customers to obtain accurate, current information about their outage status.

AUDIT OBJECTIVES, SCOPE, METHODOLOGY AND PRIOR AUDIT FOLLOW-UP

Audit Objectives

The audit of the Outage Management System (OMS) had the following objectives to determine whether:

1. Any further action was required regarding practices used in pre-operational vendor selection and testing leading up to full system operation.
2. System capacity stress testing was sufficient, based on objective criteria, to demonstrate the system's ability to perform successfully during a significant outage scenario such as the December 2013 ice storm outage.
3. Any further action was required regarding system maintenance and redundant system backup.

Audit Scope

The audit scope was limited to an examination of the processes and procedures involving the procurement, testing and operation of the OMS at BWL. The audit was conducted in accordance with *International Standards for the Professional Practice of Internal Auditing* for internal audit functions and, accordingly, included such tests of the records and such other auditing procedures as we considered necessary in the circumstances.

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Audit Methodology

Audit procedures were performed between April 30 and August 31, 2015. Audit methodology included reviewing the processes involved in the managing the OMS and related policies, procedures and transactions for the period February 2009 through June 2015. The methodology included a preliminary survey, which consisted of interviewing various personnel and reviewing reports and procedures to gain an understanding of the OMS and the related documentation to audit. We also included discussion of BWL actions regarding certain recommendations of the Community Review Team (CRT) and BWL that were made in reviews subsequent to the December 2013 ice storm outage and that related to the OMS.

To accomplish our first objective, we:

- Interviewed responsible personnel regarding the pre-procurement and pre-operational actions taken in procuring the current OMS, including potential lessons learned.
- Reviewed procurement and testing documentation for compliance with BWL procurement procedures and completeness.

To accomplish our second objective, we:

- Interviewed responsible personnel and reviewed procedures in place to ensure adequate system stress testing occurred after the system failure in December 2013 to prevent a similar failure in the future.
- Reviewed stress testing results and interpretations from technical experts to ensure the results provided evidence of the system's ability to perform under stressful situations.

To accomplish our third objective, we:

- Interviewed responsible personnel on system redundancy and backup plans.
- Reviewed the system backup as denoted in the BWL Emergency Operations Plan, and the contract for OMS maintenance and support to ensure adequacy of coverage.

Prior Audit Follow-up

There was no prior internal audit of the OMS at BWL to our knowledge.

AUDIT REPORT 2015-07

FINDINGS, RECOMMENDATIONS AND RESPONSES

SYSTEM PROCUREMENT AND PRE-OPERATIONAL TESTING

Audit Objective 1:

Determine whether any further action was required regarding practices used in pre-operational vendor selection and testing leading up to full system operation.

Background:

According to the BWL Procurement Procedures, the Request for Proposal (RFP) is the longest of all the procurement processes and often involves the establishment of an evaluation committee who will score the bidders in a number of different categories to identify the best value proposal. An RFP is required when non-price factors are a major part of the award criteria, and is normally used for complex procurements such as information technology. As with any purchase, price is important but will not be the sole basis for a decision. Pre-proposal conferences should be considered to provide clarification and encourage competition. A minimum of three qualified bidders should be solicited (excerpted from Procedure #3, Public Bidding).

New software systems are subject to rigorous testing of their capabilities prior to the system being placed in a live production environment. Two key tests that were used on the GE PowerOn OMS were the Functional Acceptance Test (FAT) led by the vendor, and the Site Acceptance Test (SAT) led by BWL. Testing results should be documented such that any errors that occurred are noted and either deemed insignificant or flagged for correction and repeat testing. Sufficient time should be scheduled to re-test successfully on a priority basis before going live with the system.

Audit Conclusion:

Actions are needed to improve practices used in pre-operational vendor selection and testing leading up to full system operation.

Finding 1:

BWL procurement procedures regarding the Request for Proposal process dealing with technical evaluation were not clear enough to determine whether they were adequately followed. Since technical evaluation requirements versus optional actions were not made clear, the OMS procurement showed the need for technical evaluation improvements in the period leading up to contract award to prevent significant technical issues after award. For instance:

1. Only two bids were received although eight potential bidders were solicited, in part because the existing OMS vendor declined to bid on the replacement OMS and no attempt was made to further solicit non-bidders to find out why they had not bid on the project.
 - a. The existing OMS vendor (Intergraph) had already proposed an upgrade to its current OMS that was nearing the end of its Maintenance and Support (M&S) contract and in

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need of hardware replacement. Intergraph did not participate in the bidding for the replacement OMS because they claimed a lack of opportunity to present their case regarding the upgrade. The upgrade was proposed at a cost of \$174,000; however, its estimated life cycle cost including maintenance and support could not be determined at the time since a long-term support contract was neither requested nor proposed (the table below shows an extrapolation of M&S costs based on a one-year extension offer).

- b. There appeared to be some difference of opinion about whether, in the circumstances, the Intergraph upgrade could be implemented without going through a competitive bidding process, since management had directed a long-term OMS solution that included potential capabilities that the current system may or may not have possessed. At the same time, other IT-based systems at BWL were upgraded routinely without going through the competitive bidding process.
 - c. The unresolved question between the system users and project management was whether the Intergraph upgrade should have been seriously considered given the desired OMS capabilities going forward, and the need to either upgrade or replace the current OMS due to impending obsolescence.
2. The evaluation of non-cost factors was extensive regarding the review of each bidder's technical and functional capabilities, and a series of reference calls to other utilities was made which, overall, seemed to slightly favor the non-selected bidder (CGI Group Inc.).
 - a. However, an Excel template file designed to weight and score the proposals on various non-cost factors, as recommended in the BWL procurement procedures was not used. Instead, an informal straw vote was taken on technical and functional capabilities as expressed in RFP responses and considering the reference call results and the straw vote was three for the competing system (CGI), two neutral, and none for GE Energy Systems.
 - b. Since the RFP responses indicated that either bidder could provide the required functionality and GE's cost proposal was less than half the competitor's (see table below), the straw vote results were not considered in the decision to select GE Energy Systems. However, when such a disparity in cost exists and the technical review available seemed to point, however slightly to the competitor, that should have at the least invited more questions, discussion and analysis about technical capabilities between the bidders before the contract was awarded.
 3. Technical reviews of the system's capabilities and limitations continued after the contract was awarded to GE confirming several significant shortfalls such as the lack of high

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availability redundancy².

- a. The OMS technical (IT) lead raised concerns about GE's lack of responsiveness to identified concerns. Those concerns were not adequately addressed and the project moved forward. Although high availability redundancy would not have helped the functional failure involving conductor cuts (see description below) in the December 2013 outage, high availability redundancy is critical in ensuring real-time receipt of customer calls from the call system and other key response and reporting capabilities when major outages occur.
 - b. It was noted that the comprehensive RFP document sent to the bidders included thorough questions about high availability system redundancy. However, although GE responded in the affirmative it could not actually deliver that capability. GE promised other reporting and interfacing with other systems that were not adequately delivered, but may have influenced the decision to procure its PowerOn system at the time.
 - c. One key function was the "conductor cuts" capability that enables the system to isolate specific "line down" locations needing restoration and create a work order for the appropriate location. An issue regarding this capability not working was identified in May 2013 and a correcting "patch" was created; however, the patch was not installed prior to the December 2013 outage due to uncertainties from a lack of vendor documentation. Ultimately the conductor cuts issue was resolved by the GE help desk on December 28, 2013, at which point it was too late to effectively support the ice storm outage.
4. The Director of the Information Technology Department (ITD) was appointed to act as the project manager for a future OMS procurement in August 2009, per senior management's direction in consolidating more of the system development and procurement responsibilities under ITD. Up to that point, the project manager was the then-Director of Electric Delivery, who was later moved into ITD and placed in charge of the OMS project, with the technical lead also assigned in ITD. Since the former Director of Electric Delivery was reassigned to work under the Director of ITD who was previously assigned OMS project management responsibilities, the situation created some diffusion of responsibility and authority for project management. According to current IT management and other senior executives, the now-accepted business practice is for the user group to provide the project manager, as long as he or she has the requisite qualifications, and obtain assistance from ITD as needed.
 5. The table below shows a cost comparison between the two bidders on the replacement OMS versus the previous OMS vendor's upgrade proposal, and shows that the upgrade

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was potentially the least expensive option, albeit with no guarantee of the same capabilities as the GE and CGI system proposals.

Cost Comparison between OMS Vendors (see footnotes below)

Contract Item	Intergraph (Original OMS contractor)	GE Energy Systems	CGI
System Upgrade	\$174,000*	NA	NA
Base Software Cost	NA	\$120,000	\$379,200
Implementation Cost	NA	\$476,580	\$643,171
Maintenance & Support (3 yrs.)	\$396,000**	\$66,763	\$381,030
Total	\$570,000	\$663,343	\$1,403,401

* The Intergraph upgrade was not based on the technical/functional requirements in the RFP for the replacement OMS, although a significant part of the RFP was derived from the original OMS RFP that was awarded to Intergraph.

** Only one year of M&S was proposed by Intergraph for \$132,000 independent of the system upgrade proposal. That figure was simply extrapolated to a three-year period to coincide with the other proposals.

Recommendation 1:

Management should ensure that in the future, for complex procurements:

1. Technical factors including predicted performance reliability are fully considered and evaluated along with cost.
2. A formal bid evaluation is completed with weightings assigned to various factors for all RFP-based procurements, whether or not an "evaluation committee" is established, and the results are provided to key decision-makers.
3. Full consideration is given to alternatives such as upgrading an existing system versus replacing it, in line with sole source and competitive bidding guidance.
4. The project manager is selected from the user group or department with defined authority from senior management, with ITD in a supporting role.

Management Response:

1. Management agrees. A full review of Purchasing policy is underway, and will include a documented technical review requirement for formal bid evaluations. Implementation is expected by 12/31/15.
2. Management agrees. A full review of Purchasing policy is underway, and will include a documented technical review requirement for formal bid evaluations, including the weighting of factors provided to key decision-makers. Implementation is expected by 12/31/15.
3. Management agrees. A recently formed, cross-discipline Enterprise Technology Team will vet alternatives and provide recommendations for consideration.
4. Management agrees. The selection of Project Manager is determined by the business system owner.

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Finding 2:

Testing of the GE PowerOn OMS was not sufficient prior to the go-live date to provide necessary evidence of the system's reliable performance in a production environment. Specifically:

1. In GE's Functional Acceptance Testing (FAT), 43 issues were identified and categorized by severity. Of these, only 12 were listed as "closed" in the final report of test results. In addition, 24 functions were not tested and were noted in the report as tests that were deferred to BWL during its Site Acceptance Test (SAT). The usual practice is to correct FAT issues before proceeding with SAT.
2. Although opinions differed as to the severity of the open issues and whether they could wait until the system went live to be corrected, the OMS project manager expressed reservations about going live with the numbers of unresolved items. The project manager also believed that a system stress test should have been performed before the system went live; however, there was no evidence that this testing was performed. In a management presentation given in early March 2013, it was noted that GE stated its reservations about the ability to go live by mid-February in a January 2013 conference call with BWL. However, after GE promised added resources to address open issues in the coming weeks, the mid-February go-live date was agreed upon.
3. The PowerOn system went "live" on February 14, 2013; only a month after final pre-implementation testing was completed. In the immediate aftermath, the following were noted:
 - a. Eleven open variances from prior to go-live were tagged as "required" for the production (post-go-live) system but unresolved according to a February 22, 2013 variance listing. Ten of these variances were still open on a similar listing for May 6, 2013.
 - b. On a similar listing dated March 28, 2013, in addition to the 11 open pre-go-live variances, 13 new variances were identified with 6 listed as "Severity 1" or the most critical level.
 - c. In a February 20, 2013 e-mail to the GE project manager, the BWL project manager expressed serious concerns with the number of open variances, delayed training, and OMS reports that were still under development that were critical to go-live. In addition, the project manager noted that the system was "very fragile or unstable" in his opinion, and that he had never implemented a system that had so many new problems crop up at this point in the project (this employee had over 30 years of engineering and project management experience at the BWL). In a related e-mail dated March 12, 2013, the project manager expressed similar frustrations, including a problem that prevented daily updates from BWL's Customer Information System to OMS to ensure the database in OMS remained current.

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4. The February go-live was deemed critical because of the upcoming storm season, concerns about the existing OMS's risk of failure, and the fact that implementation was already well behind schedule (according to a project schedule provided by GE in December 2011, go-live was to occur on October 2, 2012). However, the Intergraph OMS continued to perform reliably even in the absence of an M&S agreement which had expired in September 2010. Therefore BWL had already gone without vendor support on the existing system for well over two years before going live with GE's PowerOn OMS.
5. Due to the accelerated go-live schedule, the resulting uncertainty about PowerOn's overall reliability, and the inability to meet PowerOn internal training requirements timely, consideration was given by the project team to run the original OMS during an initial period after the PowerOn go-live date. However, this action (referred to as parallel processing) was not taken due to the additional cost and time resources of running parallel systems. A suggestion from the user group to run the GE OMS as a training system until the variances and other issues noted above were resolved was not considered.

Recommendation 2:

Management should:

1. Ensure that future system testing, including a stress test where needed, is followed through to ensure that all significant errors are corrected as demonstrated by follow-up testing, prior to allowing the system to become operational.
2. IT systems should have a planned upgrade or replacement schedule that is consistent with the six-year capital budget planning.
3. Set go-live dates based on an assessment of when the system will be fully tested and ready to roll out. Other factors such as the current system's anticipated obsolescence should be built into the overall schedule to enable a smooth transition.
4. Consider whether to run parallel processing or a period of less than full implementation of the new system for training, etc. on a case-by-case basis, with operational as well as cost considerations evaluated.

Management Response:

1. Management agrees. This is a responsibility of the Project Manager, with oversight of the Project Manager provided by the Enterprise Technology Team.
2. Management agrees. All critical systems will be evaluated by the Enterprise Technology Team and consistent with the 6-year capital forecast.
3. Management agrees. This is a responsibility of the Project Manager, with oversight of the Project Manager provided by the Enterprise Technology Team.
4. Management agrees. This is a responsibility of the Project Manager, with oversight of the Project Manager provided by the Enterprise Technology Team.

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SYSTEM CAPACITY STRESS TESTING

Audit Objective 2:

Determine whether system capacity stress testing was sufficient, based on objective criteria, to demonstrate the system's ability to perform successfully during a significant outage scenario such as the December 2013 ice storm outage.

Background:

Stress tests are performed periodically on systems such as the OMS to ensure that the system can handle its identified capacity limits. The stress test should therefore test up to the identified capacity or other defined tolerable limit for assurance that the system can handle maximum workload in an emergency situation. Test results should be adequately documented with conclusions.

The actual calls received per hour during the highest volume call day during the ice storm outage (December 22, 2013) could not be determined; however, over 266,000 calls were received during the 24-hour period, an average of more than 11,000 calls per hour. For peak daylight hours, the numbers per hour would presumably be much higher than the average. However, it was noted that based on informal feedback during the ice storm that many calls were never connected (i.e., busy signal received in repeated attempts).

Audit Conclusion:

System capacity stress testing, although performed on a periodic basis since the December 2013 ice storm outage, needed further improvements to sufficiently demonstrate the system's ability to perform successfully during a significant outage scenario.

Finding 3:

Although stress testing results were interpreted to provide assurance that a worst-case scenario call volume could be handled, more analysis of prior experience, lengthier tests and call processing vendor independent capacity testing were needed to provide added assurance that the call system can be relied upon to meet a defined tolerable stress limit. Although semi-annual stress tests of the GE PowerOn OMS have been performed since the December 2013 ice storm outage, the tests have not been to the identified call capacity of 40,000 calls per hour or other stated tolerable stress limit. Further, the 40,000 calls per hour were not analyzed to confirm whether they exceed a tolerable stress limit. Also, testing results were only partially documented and lacked a conclusion about what the results meant.

Recommendation 3:

Management should:

1. Develop more specific testing criteria (i.e., a tolerable stress limit) based on experience from prior outages, industry benchmarks, etc.

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2. Have the call processing vendor perform the independent call capacity test to demonstrate its ability to handle the volume of calls that it is contractually bound to handle or an agreed-upon tolerable stress limit.
3. Develop testing plans/scripts to be used when implementing new systems, or upgrading or changing current systems to ensure thorough testing to the identified stress limit.
4. Future stress tests should include at least a brief narrative explaining the test results.

Management Response:

1. Management agrees and is consulting with an industry expert to create a stress test template for this system to be used for future OMS stress tests. This will be fully implemented by 12/31/15.
2. Management will review capacity reports from vendors showing peaks, average, and raw capacity over the past year. If these reports do not reflect the call volume per contract, existing contract enforcement procedures will be triggered.
3. Management agrees. IT will issue a procedure by 12/31/15 requiring documented business owner acceptance of test criteria and results.
4. Management agrees and, in the new procedure just mentioned in #3 above, IT will reference the need to include a narrative with test results.

SYSTEM MAINTENANCE AND REDUNDANT BACKUP

Audit Objective 3:

Determine whether any further action was required regarding system maintenance and redundant system backup.

Audit Conclusion:

As recommended by the CRT, the OMS has been integrated into the Emergency Operations Plan, including the manual backup system for use if necessary. The manual backup system used during the ice storm outage was necessitated by functional problems with the OMS and the calling system associated with OMS, not by a lack of system redundancy, although the level of redundancy provided in the current OMS falls short of what was supposed to be delivered (See Finding 1 in the Detailed Report for further explanation). In order to minimize risk in the event of future OMS failure, BWL is in the initial stages of procuring an Advanced Distribution Management System (ADMS). Once implemented, the ADMS will serve to integrate OMS with other operational systems and be fully redundant for all of its operational functions, including Outage Management. Until then, the current OMS is supported by an existing Maintenance & Support contract and the manual back-up system is available if necessary.

Finding: None

Questions were presented to Mr. Perkins during the review, including, whether in Internal Auditor Perkins opinion, the problems identified in the OMS audit were systemic or isolated. He responded that there was some of each element present during the audit. For instance, the decision to re-assign the OMS project manager from the then-Electric Delivery Department to the Information Technology Department (ITD) resulted from a management decision to place all IT systems procurement and management responsibilities under the ITD. This could be looked upon as a systemic issue, although it has since been addressed by the new management team. However, the failure to perform a more formalized technical evaluation of bids was not necessarily systemic, based on a prior procurement audit in which adequate bid evaluations were apparent.

Another question was whether the pre-operational testing treatment of testing errors was not typical, i.e., going from one testing phase to the next without correcting the errors from the previous phase. Internal Auditor Perkins stated that in his experience in reviewing system procurements, this situation was not typical. Commissioner Mullen voiced a similar view based on his IT background and experience and stated that with a system as complex as the OMS, system stress testing prior to implementation is a must. A system stress test prior to implementation was not performed on the OMS.

In conclusion, Finance Chair Ross stated that the Board's function is to provide oversight, and not to actually run the operations of the BWL, which is what we hired the General Manager and his team to do. Chair Ross furthermore stated that the Finance Committee is interested in understanding how BWL is putting in place internal controls to detect issues; that BWL has policies and procedures in place to ensure bad things do not occur, as well as to ensure that the BWL is following such policies and procedures.

Public Comment

None

Other

Board Chair David Price informed everyone of upcoming events:

- November 19, 2015 CRT Community Forum Meeting
- December 15, 2015 Commissioner Governance Training with Janice Beecher from MSU

Adjourn

On Motion by Commissioner Louney, Seconded by Price, the meeting adjourned at 8:48 p.m.

Respectfully submitted
Ken Ross, Chair
Finance Committee

FINANCE COMMITTEE

November 10, 2015

The Finance Committee of the Lansing Board of Water and Light met at the BWL Headquarters – REO Town Depot located at 1201 S. Washington Ave., Lansing, MI, at 6:28 p.m. on Tuesday, October 10, 2015.

Finance Committee Chairperson Ken Ross called the meeting to order and asked the Corporate Secretary to call the roll.

Present: Commissioners Ken Ross, Dennis M. Louney, David Price and Alternate Member Sandra Zerkle. Also, present Commissioners Mark Alley. Non-Voting Members present: Michael Froh (Meridian Township), Bill Long (Delta Township) and Bob Nelson (East Lansing).

Absent: Commissioner Tracy Thomas

The Corporate Secretary declared a quorum.

Public Comments

None

Approval of Minutes

Motion by Commissioner Price, Seconded by Commissioner Louney, to approve the Finance Committee meeting minutes of October 20, 2015.

Action: Motion Carried

BWL Finance Committee Oversight/Scope & Current Reporting

Chairperson Ken Ross informed the Committee that the Oversight/Scope & Current Reporting document was created and is being presented for edification purposes based on the scope of the Finance Committee, as contained in the BWL's Rules and Procedures. The document outlines (ten) areas of oversight, as well as reports that are coming before the committee and on what frequency.

September Financial Summary

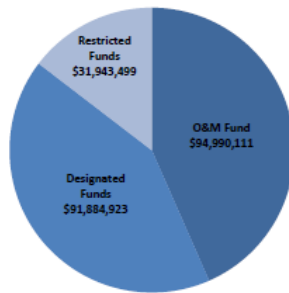
Heather Shawa-DeCook, Chief Financial Officer (CFO) discussed BWL's September 30th Financial Scorecard, covering the following:

- Cash
- Income Statement YTD
- Budget Status YTD
- Adjusted Net Income Return
- Ratios
- Employee Data

Financial Summary - September 2015



Cash



Total Cash: \$218,818,532

	Month End	Target
Days Cash on Hand	177	150-249
Credit Rating	AA-	AA-
Debt Service Coverage - Rating Agencies	1.66	2.00-2.49
Debt Service Coverage - Bond Covenants	2.27	1.25

The Days Cash on Hand and Debt Service Coverage - Rating Agencies target ranges are provided by Moody's as expected performance for a AA- rated electric utility with generation.

Income Statement YTD

	Actual YTD	YTD Budget	Difference	%	Actual Prior YTD	Difference	%
Retail	\$ 89,172,257	\$ 89,542,131	(369,874)	0%	\$ 79,308,260	\$ 9,863,997	12%
Wholesale	\$ 8,880,637	\$ 11,952,795	(3,072,158)	-26%	\$ 9,893,295	\$ (1,012,658)	-10%
Total Revenue	\$ 98,052,894	\$ 101,494,927	(3,442,033)	-3%	\$ 89,201,556	\$ 8,851,338	10%
Operating Expenses	\$ 74,423,581	\$ 83,433,665	(9,010,084)	-11%	\$ 72,499,575	\$ 1,924,006	3%
Non Operating	\$ (8,327,470)	\$ (9,494,322)	1,166,852	-12%	\$ (8,979,490)	\$ 652,020	-7%
Net Income	\$ 15,301,843	\$ 8,566,940	6,734,903	79%	\$ 7,722,490	\$ 7,579,353	98%

Projected FY 2016 Net income \$ 3,489,781

Budget Status YTD

O&M Budget YTD (excluding fuel)

	Actual YTD	YTD Budget	Difference	%
	\$ 29,181,800	\$ 35,501,771	(6,319,971)	-18%

Capital Budget YTD

	Actual YTD	YTD Budget	Difference	%
	\$ 8,676,127	\$ 11,915,727	(3,239,600)	-27%

Adjusted Net Income Return

	Actual YTD	YTD Budget	Target
	2.57%	1.69%	6.18%

Debt Service Coverage - Rating Agencies - $\frac{\text{Projected Net Income} + \text{Depreciation Expense} + \text{Interest Expense} + \text{Fixed Obligations}^*}{\text{Debt Service} + \text{Fixed Obligations}}$

Adjusted Net Income Return - $\frac{\text{Actual YTD Net Income increased for interest expense}}{\text{Net Fixed Assets} + \text{Inventory}}$

*Fixed obligations represent Belle River Debt Service

Financial Summary - September 2015



Ratios

Operating Ratio

O&M Expense	\$ 64,219,923	=	0.65	APPA Median 0.71
Revenue	\$ 98,052,894			

Measures the proportion of revenues to cover the operations and maintenance costs

Current Ratio

Current Assets	\$ 207,862,563	=	3.90	APPA Median 2.07
Current Liabilities	\$ 53,233,279			

Measures whether current assets are sufficient to pay current liabilities within one year

Debt to Total Assets

LT Debt + Accrued Liabilities	\$ 417,499,390	=	0.41	APPA Median 0.61
Total Assets	\$ 1,023,946,147			

Measures the ability to meet its current and long-term liabilities based on the availability of assets

Days' Sales Outstanding

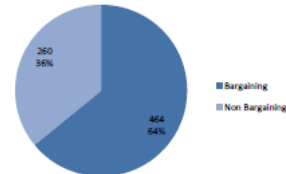
Accounts Receivable	\$ 24,913,485	=	0.76	Prior Year 31
Average Sales	\$ 32,864,788	X 30		33 Days

Bad Debt

Actual YTD	YTD Budget	Over/(Under)	% of Revenue	APPA Median
\$414,874	\$443,382	-\$28,508	0.42%	0.28%

Employee Data

Employee Count YTD	724
Budget YTD	753
Over (Under)	(29)
Prior YTD	709
Difference	15



Payroll Data

	Actual YTD	YTD Budget	Difference	Actual Prior YTD	Difference	%
Regular	\$ 12,380,003	\$ 12,620,317	\$ (240,314)	\$ 11,709,593	\$ 670,410	5.7%
Overtime	\$ 1,705,522	\$ 1,423,315	\$ 282,207	\$ 1,607,964	\$ 97,558	6.1%
Total	\$ 14,085,525	\$ 14,043,632	\$ 41,893	\$ 13,317,557	\$ 767,968	5.8%
Total Hours Worked	308,769			308,659		
Labor/Hours Worked	\$ 45.62			\$ 43.15		

APPA Median \$ 44.13

APPA Median data is based on 2014 numbers and does not reflect subsequent labor inflation.

Benefits Cost

(Including Retirees)

	Actual YTD	YTD Budget	Difference
Health	\$ 2,596,043	\$ 3,308,788	\$ (712,745)
RX	\$ 689,373	\$ 767,393	\$ (78,020)
Dental	\$ 182,783	\$ 324,280	\$ (141,497)
Life	\$ 46,784	\$ 75,886	\$ (29,102)
FICA	\$ 1,047,342	\$ 1,070,311	\$ (22,969)
Other	\$ 384,742	\$ 709,954	\$ (325,212)
Total	\$ 4,947,067	\$ 6,256,612	\$ (1,309,545)

*APPA Median Source is the APPA Selected Financial and Operating Ratios of Public Power Systems, 2014 Data. Specifically utilities with over 100,000 Customers.

Ms. Shawa-DeCook stated that last month, Scott Taylor, Manager of Finance, provided the Committee with specifics on BWL’s Cash Balance. In the month of January, the Administration will provide reports on the Income Statement year-to-date, Budget year-to-date and the Adjusted Net Income Return. In addition, the Ratio section of the budget will be covered the following month with the final presentation being the Employee Data section.

Procurement Policy Revision (Resolution)

Heather Shawa-DeCook, Chief Financial Officer (CFO) introduced Bruce Cook, Manager of Purchasing, Warehousing and Fleet Services, who assisted in providing the Committee information, about the recommended proposed changes to the current Procurement Policy. A Resolution was also presented for consideration to support the proposed changed procurement policy.

There was a lengthy discussion regarding the proposed changes to the Procurement Policy.

Motion by Commissioner Price, Seconded by Commissioner Louney, to forward the Procurement Policy to the full Board for Consideration.

Action: Motion Carried

Status of Management Response to Internal Audits as of 10/30/15

Heather Shawa-DeCook, Chief Financial Officer (CFO) provided an update on the Management’s response to Internal Audits. Ms. Shawa-DeCook covered the following issues and its status:

STATUS OF MANAGEMENT RESPONSES TO INTERNAL AUDITS AS OF 10/30/15

In Accordance with Board Resolution #2014-07-05

Updates in red

Issue #	Audit Name	Issue Description	Date	Responsible Area	Status
Open Issues:					
12	Record Retention	Internal Audit found that records on hand did not always correspond with the Record Retention Schedule; namely, a portion of I-9 forms and some asbestos bills of lading.	March 2014	Human Resources	Human Resources is in the process of ensuring that I-9 forms are on file for all active employees, with an expected completion date of 12/31/15. An appropriate retention schedule for the asbestos bills of lading will be determined and updated as part of the overall review of the Record Retention Schedule. Enterprise Content Management anticipates an updated schedule will be provided for executive management review by <u>1/31/16</u> .
13	Record Retention	The Internal Auditor determined that records on hand in departments did not always correspond with the Record Retention Schedule.	March 2014	Enterprise Content Management	Enterprise Content Management is reviewing the existing Record Retention Schedule with the appropriate departments and cataloging all proposed revisions. It is anticipated that an updated schedule will be provided for executive management review by <u>1/31/16</u> .
17	Close the Books	The Internal Auditor recommended that consideration be given to the use of a general accounting manual.	August 2014	General Accounting	A General Accounting Procedure Manual is being developed, with expected completion by <u>12/31/16</u> .
26 <i>NEW</i>	Management of Mobile Devices	The Internal Auditor noted that guidelines for mobile device management should be documented.	Sept 2015	Information Technology	Guidelines on use of mobile devices are being documented, with completion anticipated by 12/31/15.
27 <i>NEW</i>	Management of Mobile Devices	The Internal Auditor recommended encrypting data on all remaining laptops and smart phones.	Sept 2015	Information Technology	Data on any mobile devices in need of encryption can and will be identified once the mobile device usage guidelines referred to under issue #26 have been established. Completion by 6/30/16 is anticipated.
28 <i>NEW</i>	Management of Mobile Devices	Internal Audit questioned whether contract terms and conditions covering data loss and manipulation are sufficient.	Sept 2015	Information Technology	Any needed updating of contract terms and conditions will be complete by 12/31/15.
29 <i>NEW</i>	Management of Mobile Devices	Internal Audit recommended further consideration of procuring software with remote cleaning capabilities.	Sept 2015	Information Technology	Once any data accessed via mobile devices is determined to be in need of encryption (i.e., once issue #27 is addressed), it can be determined to what extent procuring and implementing software with remote cleaning capabilities would be cost-beneficial. It is anticipated that this issue will be addressed by 6/30/16.
30 <i>NEW</i>	Management of Mobile Devices	Internal Audit recommended disabling data ports on mobile devices.	Sept 2015	Information Technology	Any needed disabling of data ports will be complete by 6/30/16.
31 <i>NEW</i>	Outage Management System	The Internal Auditor found that procurement procedures regarding technical evaluation during the RFP process need clarification.	Oct 2015	Information Technology	A full review of purchasing policy is underway, with an anticipated completion date of 12/31/15.

Issue #	Audit Name	Issue Description	Date	Responsible Area	Status
33 NEW	Outage Management System	The audit recommended more specific test criteria, testing performed by the call processing vendor, development of test scripts, and a narrative of test results.	Oct 2015	Information Technology	Management is consulting with an industry expert to create an OMS stress test template, reviewing vendor capacity reports, and issuing a new procedure requiring a narrative of test results and documented business owner acceptance of test criteria and results. Completion is targeted for 12/31/15.

Closed Issues (since 7/31/15 report):

15	Accounts Payable	The audit revealed the existence of more than 14,000 vendor master entries, some no longer needed.	June 2014	Accounts Payable	The IT Department determined which vendor entries should be blocked on SAP due to inactivity and blocked them from use.
16	Accounts Payable	The Goods Receipt/Invoice Receipt account balance was found to be higher than in previous years. Internal Audit recommends that management focus on resolving mismatched items in this account and clear unresolved documents older than a particular age.	June 2014	Accounts Payable	Accounts Payable cleared older items by working with departments to resolve goods and invoice receipts older than 15 months and reducing the occurrence of invoices 45 days or older. To reduce the recurrence of these types of issues, a refresher training course on the system receiving function was developed. In addition, automated email notification functionality was made available in October 2016, which will further assist with addressing this issue.
20	Materials Inventory Management	The Internal Auditor found access to two inventory-related SAP system transaction types to be excessive.	Jan 2015	Purchasing & Warehousing	Unnecessary access has been removed. Purchasing & Warehousing has also taken it upon itself to develop an additional control, in the form of a periodic report run to monitor a particular situation where duties cannot always be adequately segregated due to limited availability of backup personnel in non-routine instances.
23	Annual Projects Management	Internal Audit determined that the project close-out process did not always include a documented narrative explaining why actual costs exceeded estimates.	July 2015	Customer Projects, Electric System Integrity, and Water Distribution	The project close-out process was enhanced by developing a form and procedure requiring a narrative explanation when project costs exceed estimates by a threshold of 15% and \$50,000.
24	Annual Projects Management	Internal Audit determined that the project close-out process did not always identify use of contingency amounts.	July 2015	Customer Projects, Electric System Integrity, and Water Distribution	The project close-out process was enhanced by the development of a form and procedure requiring identification of the use of contingency amounts when project costs exceed estimates by a threshold of 15% and \$50,000.
32 NEW	Outage Management System	Internal Audit deemed pre-implementation testing to be insufficient.	Oct 2015	Information Technology	Development of the Enterprise Technology Team has served to address this issue. The Team's responsibilities include regular project monitoring and review and formal acceptance of project deliverables.

Ms. Shawa-DeCook addressed a typo in the status column of issue number 16, under closed items, whereby it reads "...functionality was made available in October 2016," as it should read "October 2015."

Internal Audit Status Report

Phil Perkins, Internal Auditor, updated the Board of the Fiscal Year 2016 Audit Plan progress. Mr. Perkins' discussion reflected the following:

Approved FY2016 Audit Plan

Planned Audits:	Completion Status
Follow-up of Selected CRT/MPSC/BWL Recs.	Est Start Date 1/16
Billing	Est Start Date 4/16
IT – Information Security Policies	Est Start Date 2/16
Training & Development	Complete
Hiring Process (replaced Safety Mgt)	33% complete
IT – Manage Changes	10% complete
Other Engagements:	
Surprise Cash Counts (2)	1 of 2 completed
Time Reporting Reviews (2)	1 of 2 completed
Central Maintenance & Fleet Vehicle Time Reporting	50% complete
Other Consulting (NERC/CIP Compliance, IRP/Strat Plan)	No engagements to date



Chair Ross suggested that the Internal Auditor evaluate whether it was prudent and whether he had available resources to conduct a cyber-security audit in this cycle.

Internal Auditor Perkins replied that a full-blown cyber-security audit including attempts to penetrate the BWL network would need to be performed by an outside party with such expertise. He noted that an IT Security Policies audit is on the schedule for FY 2016 and that cyber-security is high on the risk assessment list for continued audit work in the foreseeable future.

Public Comment

None

Other

Commissioner Robert Nelson (East Lansing), spoke about the bill insert that BWL electric customers receive as it relates to Public Act 95 of 2013, which protects customers from shut off during the winter season. Mr. Nelson stated his concern about the literature/insert not being as informative as it could be.

After a lengthy discussion regarding the insert language Finance Chairperson Ken Ross reminded the Committee that the Board's duty is not to micromanage the Administration with writing of text. Chair Ross urged management to develop any appropriate changes that would address raised concerns and possibly those changes could be presented to the Committee.

Excused Absence

Motion by Commissioner Louney, Seconded by Commissioner Price, to excuse Commissioner Thomas from tonight's meeting.

Adjourn

On Motion by Commissioner Louney, Seconded by Price, the meeting adjourned at 7:18 p.m.

Respectfully submitted
Ken Ross, Chair
Finance Committee

HUMAN RESOURCES COMMITTEE

November 10, 2015

The Human Resources Committee of the Lansing Board of Water and Light (BWL) met at the BWL Headquarters-REO Town Depot located at 1201 S. Washington Ave., Lansing, MI, at 5:30 p.m. on Tuesday, November 10, 2015.

Human Resources (HR) Committee Chairperson Tony Mullen called the meeting to order and asked the Corporate Secretary to call the roll. The following members were present: Commissioners Tony Mullen, Mark Alley, Sandra Zerkle, and Alternate Member Dennis M. Louney. Also present: Commissioners David Price, Ken Ross, Non-Voting Commissioners Mike Froh (Meridian Township), Bill Long (Delta Township) and Robert Nelson (E. Lansing).

Absent: Commissioner Anthony McCloud.

Public Comments

None

Approval of Minutes

Motion by Commissioner Zerkle, Seconded by Commissioner Alley, to approve the Human Resources Committee meeting minutes of September 15, 2015.

Action: Motion Carried.

PA 152/Employee Contribution to Medical Benefit Plan Resolution

HR Committee Chairperson Tony Mullen introduced Michael Flowers, Executive Director of Human Resources and Heather Shawa-DeCook, Chief Financial Officer, who gave a presentation on the Employee Contribution to Medical Benefit Plan.

Mr. Flowers discussed three options for the BWL to remain compliant under PA 152, 2011.



Public Act 152, 2011

- The BWL has three options:
 - Comply with PA 152 and limit expenditures on health care cost based on a schedule of dollars provided in the Act using the Hard Cap as updated annually; or
 - Limit expenditures on health care cost based on a 80/20 percentage split, requiring a majority vote; or
 - Exempt itself entirely from the Act & choose some other percentage of Premium sharing, requiring a 2/3 vote

There was an extensive discussion regarding the Employee Contribution to a Medical Benefit Plan. The Administration presented a proposed Resolution and asked that the Committee forward the Resolution to the full Board for consideration.

Proposed Resolution
To Amend Employee Contribution to
Medical Benefit Plans

WHEREAS, Governor Rick Snyder, on September 27, 2011, signed legislation known as the “Public Funded Health Insurance Contribution Act,” Public Act 152 of 2011 limiting the amount public employers may pay for government employee medical benefits, and;

WHEREAS, Public Act 152 of 2011 took effect January 1, 2012 and applies to all public employers including the Lansing Board of Water & Light, and;

WHEREAS, Public Act 152 of 2011 created a “hard cap” for medical benefit plan years beginning January 1, 2012, such that a public employer may not pay more than the statutory caps for medical benefit plans, and;

WHEREAS, by a majority vote of its governing body, a public employer may opt-out of the hard cap and into an 80% cap option where the public employer may not pay more than 80% of the total annual costs of all the medical benefit plans for its employees, and;

Whereas, by a 2/3 vote of its governing body each year, a local unit of government may exempt itself from the requirements of Public Act 152 of 2011 for the next year, and;

WHEREAS, the Board of Commissioners met on July 24, 2012 and passed a resolution (#2012-07-01) to exempt itself from the requirements of Public Act 152 of 2011 and implemented a 10% premium sharing, and;

WHEREAS, the Board of Commissioners met on July 23, 2013 and passed a resolution (#2013-07-02) to exempt itself from the requirements of Public Act 152 of 2011 and implemented a 12% premium sharing, and;

WHEREAS, the Board of Commissioners met on September 23, 2014 and passed a resolution (#2014-09-03) to exempt itself from the requirements of Public Act 152 of 2011 and kept the 12% premium sharing, and;

WHEREAS, the Board of Commissioners met on July 28, 2015 and passed a resolution (#2015-07-12) to exempt itself from the requirements of Public Act 152 of 2011 and kept the 12% premium sharing through December 31, 2015, and;

Resolved that the Board by at least 2/3 vote exempts itself from the requirements of Public Act 152 of 2011 for the 2016 health benefit plan year, which is effective January 1, 2016 through December 31, 2016, and;

Further resolved that effective January 1, 2016 the premium sharing for the 2016 health benefit plan year remains at 12% until June 30, 2016 for all active employees.

Be it further resolved that, effective July 1, 2016, for the remaining 2016 health benefit plan year the premium sharing shall increase from 12% to 14% for all non-bargaining employees. Premium sharing for all bargaining employees will remain at 12%, and will then be subjected to the Collective Bargaining Unit Agreement effective November 1, 2016.

Motion by Commissioner Zerkle, Seconded by Commissioner Alley, to forward the proposed resolution for PA 152/Employee Contribution to Medical Benefit Plan to full Board for consideration.

Action: Motion Carried.

Excused Absence

Motion by Commissioner Zerkle, Seconded by Commissioner Alley, to excuse Commissioner McCloud from tonight's meeting.

Action: Motion Carried

Public Comments

None

Adjourn

Motion by Commissioner Zerkle, Seconded by Commissioner Alley, the meeting adjourned at 6:24 p.m.

Action: Motion Carried

Respectfully Submitted
Tony Mullen, Chair
Human Resources Committee

PENSION FUND TRUSTEES COMMITTEE REPORT
NOT AVAILABLE AT TIME OF PREPERATION

PROPOSED RESOLUTION

PROCUREMENT POLICY

WHEREAS, Section 5-203.4 of the Lansing City Charter requires the BWL to adopt policies and procedures to assure fairness in procuring personal property and services and disposing of personal property; and

WHEREAS, on July 27, 2010 the Board adopted a Procurement Policy which superseded the previously adopted Purchasing Policy dated May 27, 2003; and

WHEREAS, it is desirable to update the Board's Procurement Policy to revise exclusions to the policy and competitive bidding thresholds.

RESOLVED, that the Board adopt the attached Procurement Policy dated December 1, 2015 and made effective December 1, 2015.

RESOLVED FURTHER, that where the adopted policies do not parallel those of the City's, the Board has determined that the City's policies are inconsistent with the best practices for the operation of a public utility.

RESOLVED FURTHER, that the Procurement Policy adopted July 27, 2010 is superseded as of December 1, 2015.

RESOLVED FURTHER, that Resolution 2010-07-02, which adopted the Procurement Policy, is rescinded as of December 1, 2015.

RESOLVED FURTHER, this Procurement Policy provides the foundation for revisions to the Procurement Procedures.

Staff Comments:

The Proposed Revised Procurement Policy includes updates to Section 3 entitled Reporting. The dollar threshold for what products and services should be subject to the competitive bidding process is increased from \$5,000 to \$15,000. While this threshold is a modest increase in terms to the last time this threshold was evaluated, it also will allow the procurement team the ability to focus more resources and energy to complex purchases that have a significant dollar threshold and risk impact.

Further, staff recommends updates to Section 4 entitled Exclusions. This section reflects adjustments that are more in line with what is appropriate for competitive bids in consideration of cost and operational effectiveness.



**LANSING BOARD OF WATER AND LIGHT
PROCUREMENT POLICY**

December 1, 2015

Approved by the BWL Board of Commissioners on July 27, 2010
Revised and Approved on November 17, 2015

1. PURPOSE

This policy is intended to support the procurement of materials and services and the disposition of personal property used in the operation of the Board of Water and Light ("BWL") by applying business practices that provide for public confidence in the purchasing system and to maintain a high quality purchasing program by using means of fairness, ethical practices, open competition, impartiality, and supplier diversity to achieve best value in the purchase and disposal processes.

2. ADMINISTRATION

In carrying out this policy, the General Manager and all employees with delegated purchasing authority shall comply with the BWL Procurement Policy, the Lansing City Charter, applicable City of Lansing Ordinances, and applicable State and Federal laws.

Except as otherwise provided by BWL policy, the BWL Board of Commissioners have the sole authority to approve expenditures requiring Board approval pursuant to Lansing City Charter, codified ordinance, or other BWL policy.

The BWL Commissioners delegate to the General Manager the authority to: (1) make all other purchase and sale contracts necessary for the business of the BWL, (2) define procurement procedures, and (3) administer the BWL Procurement Policy and Procurement Procedures.

The General Manager may delegate purchasing and disposal of surplus property authority to specified BWL staff. The General Manager may also permit those designees to further delegate authority to other employees. All delegations of authority and controls required to ensure compliance with this Policy and the Procurement Procedures shall be documented. Only authorized employees may bind the BWL regarding the purchase of materials and services and the disposal of personal property.

All purchasing records shall be created, retained, and disposed of in accordance with applicable Federal, State and Local Law, as well as, BWL document retention policies.

Violation of this Procurement Policy may subject an employee to disciplinary action in accordance with the BWL Rules of Conduct.

3. REPORTING

The General Manager shall report the following items to the BWL Commissioners annually:

- A. Litigation pertaining to any particular contract covered by the Procurement Policy;
- B. Sole source contracts in an amount equal to or greater than \$15,000;
- C. Emergency procurements in an amount equal to or greater than \$15,000;
- D. Contracts with a term exceeding thirty-six consecutive months without being competitively re-bid.

4. EXCLUSIONS

Payments as delineated below are necessarily excluded from the Procurement Policy by the nature of the material or service purchased:

- A. Advertisements
- B. Utility Bills, including gas, electric, water, sewage, local/cell phone service, and internet service
- C. Charitable Sponsorships
- D. Collective Bargaining Agreements
- E. Conferences, Seminars, Tuition, and Training
- F. Employment Contracts
- G. Federal Express, UPS, US Postal Service, and other similar shipping
- H. Intergovernmental or Inter-utility Agreements, including permits
- I. Legal Services
- J. Financial Services
- K. Real Property, including Easements

- L. Subscriptions, Publications, and Membership Dues
- M. Travel Expenses
- N. Workers Compensation Medical Payments and Medical Services
- O. Purchases made pursuant to the Energy Risk Management Policy
- P. Software Licensing and Maintenance Agreements after the original purchase was competitively bid
- Q. OEM (Original Equipment Manufacturer) parts and services only available from the OEM or exclusive distributor specified by the OEM after the original purchase was competitively bid
- R. Materials where the BWL has standardized on one manufacturer, where the manufacturer or exclusive distributor specified by the manufacturer is the only source
- S. Damage Claims, Government Fees, Penalties, Licenses, and Taxes

5. SAFETY CONSIDERATIONS

The BWL recognizes its obligation to provide a safe work environment for its employees and the general public. The BWL will meet this obligation, in part, by (1) purchasing safety engineered tools and equipment, (2) purchasing quality materials and (3) engaging suppliers with high-quality safety records.

6. ETHICS

Because all suppliers are entitled to impartial consideration and equal service, all BWL purchases and the disposition of surplus personal property must comply with both the letter and spirit of the City of Lansing’s Ethics Policy. Employees who violate this policy are subject to discipline and criminal penalties.

7. INCLUSION

The BWL recognizes the importance of ensuring fairness, open competition, and best value when making purchases from its suppliers, and in the community that it serves. Therefore, the BWL shall pro-actively support and use a diverse pool of suppliers.

8. ENVIRONMENTAL CONSIDERATIONS

The BWL recognizes that the purchase and use of products and services can have an impact on the environment. Where practicable, materials and services shall be purchased that are environmentally preferable.

9. LOCAL PREFERENCE

The BWL shall grant preference to businesses located in the BWL’s service area in accordance with a procedure established by the General Manager.

10. RISK MANAGEMENT

The BWL shall mitigate risks in contracts through actions such as: limitations of liability, retainage, indemnities, warranties, terms of payment, incentive fee programs, termination, and insurance and bonding requirements. There are some risks that the BWL will not accept without additional approval of the General Manager. These risks are:

- A. Full payment in advance of the receipt of products and services, except insurance payments; various licenses, including software licenses; and equipment maintenance agreements;
- B. Agreements under which the BWL assumes liability other than for its own acts or omissions; or
- C. Acquisition of material or service which expressly excludes a warranty.

11. PURCHASE OF MATERIALS AND SERVICES

Purchasing Methods and Procedures General

The BWL shall use generally accepted methods of public and utility procurement, which may be adjusted from time to

time in the best interest of the BWL, to reflect current practices and technology changes.

The amount of a purchase is determined by the total contract or purchase order dollar value, regardless of contract length. No purchase shall be subdivided to avoid this Procurement Policy.

Competitive Purchases

The BWL has determined that maximum competition secures the best value in purchases of materials and services. Therefore, unless otherwise specifically exempted by this policy, all purchases of materials and services shall be through competitive methods with at least three suppliers where practicable. The BWL shall award the contract to the best-evaluated bid, proposal, or quotation.

Purchases valued at \$100,000 or More

All materials and services with an estimated value of \$100,000 or more shall be purchased from the best-evaluated bidder after public notice on the BWL internet website or other public media. Notice may be waived at the discretion of the General Manager. The BWL and the selected supplier shall enter into a written contract to consummate the purchase.

The Procurement procedures detail the process for competitive sealed bids and proposals, including the appropriate method to determine the best-evaluated bid or proposal. Bid security may be requested but is not required.

Purchases valued at \$15,000 or More but Less Than \$100,000:

All materials and services with an estimated cost of \$15,000 or more but less than \$100,000 shall be purchased from the best evaluated supplier after the evaluation of competitive sealed bids, competitive sealed proposals, or competitive quotations. Quotations need not be sealed and no notice is necessary. The BWL and selected supplier shall enter into a written contract to consummate the purchase.

The Procurement procedures detail the process for competitive sealed bids, competitive sealed proposals, and competitive quotations, including the appropriate method to determine the best-evaluated bid or proposal. Bid security may be requested but is not required.

Special requirements for Construction Contracts:

- (a) **Performance and payment bonds** are required on all construction contracts exceeding \$50,000 in an amount equal to 100 percent of the contract price. In addition, bid security may be required in an amount equal to five percent of the amount quoted for the contract. All bonds shall be issued and executed by a surety company authorized to do business in Michigan or otherwise secured in a manner satisfactory to the BWL. Noncompliance with bonding or security requirements shall require that the bid or proposal be rejected. Nothing contained in this policy shall be construed to limit the authority to require additional bonds or security.
- (b) **Prevailing wages and fringe benefits** shall be paid on all construction contracts, as determined by statistics compiled by the United States Department of Labor and related to the greater Lansing area by that Department. Any person or business entity violating this requirement shall have thirty days to rectify the deficiency or will be deemed to be in material breach of contract.

Non-Competitive Purchases

The BWL Commissioners have determined that the following circumstances warrant an exemption from the general competition requirement and therefore, do not require competitive bidding or proposals:

- A. Emergencies posing an apparent threat to public health, safety, or welfare;
- B. Circumstances where the BWL has concluded and documented that only one source is available to supply the requested material or service item;
- C. Excluded purchases that cannot be bid, such as those previously listed in the "Exclusions" section; and
- D. Purchases under \$15,000. The Board has determined that the benefits of competition are outweighed by the administrative cost of the competitive bid process for these purchases.

Purchases exempted from the competition requirement shall, whenever possible, be made in a manner to ensure the BWL receives the best value.

Cancellation of Solicitations

The BWL may cancel a solicitation prior to full execution of a contract. In addition, BWL may reject in whole or in part any or all bids or proposals, when it is for good cause and in the best interests of the BWL.

Right to Audit Records and to Inspect Plants; Maintenance of Records

The BWL may, at reasonable times, inspect the plant, place of business or worksite of a contractor or subcontractor, which is pertinent to the performance of any contract awarded or to be awarded by the BWL. The BWL shall be entitled to audit the books and records of a contractor or subcontractor under any BWL contract or subcontract to the extent that such books, documents, papers and records are pertinent to the performance of such contract or subcontract.

12. DISPOSITION OF PERSONAL PROPERTY

The BWL will attempt to achieve the best available return when disposing of surplus property or minimal cost when disposing of non-saleable items. The BWL shall dispose of saleable personal property by fair and open competition whenever practicable. The BWL shall dispose of non-saleable items by the best available method.

13. AWARD APPEALS

A responsive supplier may appeal to the BWL regarding the award or the proposed award of a contract. The appeal shall be in writing and addressed to the General Manager.

There shall be procedures for the processing and settlement of appeals, which includes an appeal to the Board of Commissioners.

A responsive supplier must comply with all appeal procedures before seeking BWL Commissioners' review.

The Board of Commissioners has final decision-making authority concerning appeals.

14. DEBARMENT

The BWL may bar a business from consideration for award if, within the past three (3) years, the supplier, an officer of the company, or an owner of a 25% or more share of the business has:

- A. Been convicted of a criminal offense incident to the application for or performance of a contract or subcontract or which reflects on the supplier's business integrity, such as embezzlement, theft, forgery, bribery, falsification or destruction of records, receiving stolen property, or violation of state or federal antitrust statutes;
- B. Failed to substantially perform a BWL contract or subcontract according to its terms, conditions, or specifications within specified time limits;
- C. Failed to comply with the solicitation process or violated the terms of a solicitation after bid or proposal submission; or
- D. Is, or has been, in default in the payment of any amount due the BWL or the City of Lansing.

15. CREDIT CARDS

The General Manager may authorize the use of BWL-issued credit cards (P-cards) for material and service (see clarification below) purchases in accordance with this provision and applicable law. No employee may use a P-card without delegated credit card authority from the General Manager.

The total combined authorized credit limit of all P-cards shall not exceed 5%, or some other amount established by state law, of the total budget of the BWL for the current fiscal year.

The General Manager shall be responsible for the BWL's credit card issuance, accounting, monitoring, and retrieval and generally for overseeing compliance with the P-card policy.

Employees with delegated credit card authority shall comply with BWL procedures for documentation described in the P-card procedure.

P-CARDS MAY NOT BE USED FOR (1) PRODUCT LICENSING, (2) EQUIPMENT OR SOFTWARE MAINTENANCE AGREEMENTS OR (3) SERVICES PERFORMED ON BWL OR CUSTOMER PROPERTY.

Proposed Resolution
To Amend Employee Contribution to
Medical Benefit Plans

WHEREAS, Governor Rick Snyder, on September 27, 2011, signed legislation known as the "Public Funded Health Insurance Contribution Act," Public Act 152 of 2011 limiting the amount public employers may pay for government employee medical benefits, and;

WHEREAS, Public Act 152 of 2011 took effect January 1, 2012 and applies to all public employers including the Lansing Board of Water & Light, and;

WHEREAS, Public Act 152 of 2011 created a "hard cap" for medical benefit plan years beginning January 1, 2012, such that a public employer may not pay more than the statutory caps for medical benefit plans, and;

WHEREAS, by a majority vote of its governing body, a public employer may opt-out of the hard cap and into an 80% cap option where the public employer may not pay more than 80% of the total annual costs of all the medical benefit plans for its employees, and;

Whereas, by a 2/3 vote of its governing body each year, a local unit of government may exempt itself from the requirements of Public Act 152 of 2011 for the next year, and;

WHEREAS, the Board of Commissioners met on July 24, 2012 and passed a resolution (#2012-07-01) to exempt itself from the requirements of Public Act 152 of 2011 and implemented a 10% premium sharing, and;

WHEREAS, the Board of Commissioners met on July 23, 2013 and passed a resolution (#2013-07-02) to exempt itself from the requirements of Public Act 152 of 2011 and implemented a 12% premium sharing, and;

WHEREAS, the Board of Commissioners met on September 23, 2014 and passed a resolution (#2014-09-03) to exempt itself from the requirements of Public Act 152 of 2011 and kept the 12% premium sharing, and;

WHEREAS, the Board of Commissioners met on July 28, 2015 and passed a resolution (#2015-07-12) to exempt itself from the requirements of Public Act 152 of 2011 and kept the 12% premium sharing through December 31, 2015, and;

Resolved that the Board by at least 2/3 vote exempts itself from the requirements of Public Act 152 of 2011 for the 2016 health benefit plan year, which is effective January 1, 2016 through December 31, 2016, and;

Further resolved that effective January 1, 2016 the premium sharing for the 2016 health benefit plan year remains at 12% until June 30, 2016 for all active employees subject to the Collective Bargaining Unit Agreement, and;

Be it further resolved that, effective July 1, 2016, for the remaining 2016 health benefit plan year the premium sharing shall increase from 12% to 14% for all active employees subject to the Collective Bargaining Unit Agreement.

RESOLUTION

ACCEPTANCE OF 2015 AUDITED FINANCIAL STATEMENTS FOR THE DEFINED BENEFIT PENSION PLAN, DEFINED CONTRIBUTION PENSION PLAN, AND RETIREE BENEFIT PLAN (VEBA)

Resolved, that the Corporate Secretary receive and place on file the Defined Benefit, Defined Contribution and Retiree Benefit Pension reports presented during the Pension Trustee Meeting.

Staff comments: All three Plans received clean audit reports.

RESOLUTION



BOARD MEETING SCHEDULE

In accordance with the Board of Water & Light’s Rules of Administrative Procedure, a schedule of dates, places, and times for each regular meeting of the Board of Commissioners for the calendar year shall be adopted in November.

RESOLVED, That regular meetings of the Board of Water & Light’s Board of Commissioners are hereby set for calendar year 2016 as follows, unless otherwise notified or, as a result of date conflicts with rescheduled City Council meetings:

2016

Board of Water & Light Commissioners
Regular Board Meeting Schedule

Tuesday	January 26
Tuesday	March 22
Tuesday	May 24
Tuesday	July 26
Tuesday	September 27
Tuesday	November 15

Meetings will be held in Board of Water & Light’s REO Town Depot, located at 1201 S. Washington Ave., Lansing, MI, at 5:30 p.m.

RESOLVED FURTHER, That a notice of the meeting schedule be published in the Lansing City Pulse the week of January 3rd, 2016.
