



Town of Reading Meeting Minutes

Board - Committee - Commission - Council:

RMLD Citizens Advisory Board

Date: 2015-04-22

Time: 6:30 PM

Building: Reading Municipal Light Building

Location: Winfred Spurr Audio Visual Room

Address: 230 Ash Street

Purpose: Regular Meeting

Session: General Session

Attendees: **Members - Present:**

Mr. George Hooper, Chair (Wilmington); Mr. David Mancuso, Secretary (Reading); Mr. Mark Chrisos (North Reading); Mr. Dennis Kelley (Wilmington)

Members - Not Present:

Mr. David Nelson (Lynnfield)

Others Present:

Mr. Dave Talbot, Board of Commissioners
Ms. Coleen O'Brien, Mr. Robert Fournier, Mr. Hamid Jaffari, Ms. Jane Parenteau, Ms. Kathleen Rybak

Minutes Respectfully Submitted By: Mr. George Hooper, Chair

A handwritten signature in dark ink, appearing to be "G. Hooper", written over a horizontal line.

Topics of Discussion:

1. Call Meeting to Order – G. Hooper, Chair

Chair Hooper called the meeting of the Citizens' Advisory Board to order at 6:30 p.m. and noted that the meeting was being audio recorded.

2. FY16 Operating Budget – C. O'Brien, General Manager

Ms. O'Brien welcomed the CAB to part two of the RMLD Budget presentation, which will feature the Operating Budget. Ms. O'Brien acknowledge the discussion at the April 15th CAB meeting regarding the budget process and noted at the end of this presentation any feedback on the process would be welcome.

Ms. O'Brien began the presentation stating the six-year plan provides an overview of where RMLD stands (for FY15) with eight months actual and four months of budgeted figures. The CAB will be voting on the 2016 Budget, and six-year plan shows projections for FY17-20, so that we will always be looking ahead so that we do not get into a situation where growth expectations are not being met and updated. Ms. O'Brien noted that staff reviews the budget against actual monthly to make sure that we are on target. Also, since last year the rates have been unbundled (for base sales of electricity). In FY16, RMLD is budgeting \$23m in base revenue, which must cover operating expense, maintenance expense and the depreciation expense. With the unbundled rate we can now see how we are covering those expenses.

Mr. Kelley asked how the first eight months of FY15 compare to the first eight months of last year. Ms. Parenteau noted that on the revenue side, sales are down. Last year we had kilowatt-hour sales of around \$689m, and this year we are projecting to come in around \$675m. Last year, we were down about 2%. We are anticipating being below last year, and therefore, assumed flat sales during the budgeting process.

Mr. Chrisos asked about large jump (in operating revenue) between FY19 and 20 (15.0%). Mr. Fournier noted that Chapter 164 allows us to earn 8%. If you look at O&M, operating and maintenance expense are growing at 3% a year. In order for us to get close to our 8% (give or take), everything else being equal (we get all our capital additions number every year, which effects depreciation expense, and our town payments to the four towns) we are saying, we need to have base revenue grow by this amount. The further out the less we know about what's going to be out there. However, if expenses are growing at 3%, and we are saying we only need about 2-2.5% base revenue growth, at some point you are going to have a shortfall to pay the piper, or you build into it along the way.

Ms. O'Brien continued, noting that we've learned in this last year and half (with sales going down) that we have to push towards the 8% rate of return to cover the capital. Other utilities can make 8% of gross, but we can only make 8% of net, so there is not a lot of margin to collect enough money when sales start to go down. Ms. O'Brien reported that the consultant said that benchmarking for operating ratio is at 85% and that provides the utility the ability to recover during periods of downward sales. This benchmark is utility practice and a strong recommendation. RMLD's operating ratio is approximately 96%. When considering the 8% of net, almost 50% goes to the Town of Reading (and going up every year by the CPI). The below the line obligations are significant. Above the line, \$1.4m is going to all the towns.

Mr. Mancuso asked about the historical rate of return up until this point. Ms. O'Brien responded that it would fluctuate. It would start of at about 6.5% and at the end of the year it would come in at 5.9%. Now, we are starting closer to 8% and will probably come in around 6.5%. In the past, there were growth projections that did not come to fruition. They were projecting a 6% return, it was coming in at less than 3%, and then getting closer to 2%. That is why we unbundled the rates, why we do the six-year plan, and have monthly staff meetings just on these values, to make sure that we are covering expense. It is better fiduciary duty in not cutting it so thin.

Mr. Chrisos commented that a policy issue really is how RMLD will continue to grow the customer base. It is something the Commission should consider. The CAB has talked about it in general, but it really is a separate discussion. Ms. O'Brien noted that it is very important to work with the towns; what we need and what they want might be a little bit different. Ms. O'Brien cited some of the work staff has been doing with Osram in Wilmington and with the Reading Economic Development team to consider development of the property behind Ash Street. Mr. Mancuso suggested this topic be an Agenda item for the CAB. The CAB as individual community representatives, as opposed to the Commission, which has to represent all the communities, can help in this process. Maybe the CAB can play a role in helping to broaden the conversation and start to help communities understand the long-term impact on rates if we don't grow load or identify other revenue streams. Mr. Talbot added, that RMLD could consider offering telecom services through fiber internet connections. Mr. Talbot stated that this is an area that he has been studying in his day job (not about RMLD), and then provided some background on what some other MLPs in the state are doing with telecom services. Mr. Talbot noted it is something that should be in the long-term plan and should start with a study committee, which would identify what the need is.

Moving back to the Budget, Ms. O'Brien noted that by maximizing the operating ratio, as also discussed in the strategic plan, it provides the utility the ability to recover during periods of downward sales. This benchmark is a utility practice and a strong recommendation. Ms. O'Brien noted that she has told the towns that there would not be any last-minute rate increases; every May and November you should expect something; rates either go up or down. Ms. O'Brien noted that she would like to change the RMLD budget to a calendar year. RMLD would then have our numbers ready so that the towns would know what to expect for their budgeting purposes. Ms. O'Brien reported that she notified the towns to expect about a 4-6% (overall) rate increase in July. The cost of service model will be run every year, we'll decide what's going to happen around this timeframe, and that will roll into the July (budgets). A full cost of service study will be done every three years.

Ms. O'Brien turned the presentation over to Ms. Parenteau. Ms. Parenteau noted that she will focus on Revenue. In order for RMLD to get to that 8% (operating ratio), we have to get to that \$23m in base revenue. The only way we can get there is if we have growth, or an increase in our rates. Ms. Parenteau noted that power supply is a pass-through; costs for base capacity, base transmission, and fuel are passed along to customers. As the actuals for these expenses come in, Integrated Resources trues up to those costs, reforecasts, and adjusts the rates accordingly. The goal at the end of the year is to have our base revenue and our base expenses net out to zero.

This (zeroing out) does not always happen due to the nature of sales. Looking at the budget, the sum of those three (base capacity, base transmission and fuel) minus the NYPA (a contra-revenue against the fuel), will exactly equal to our operating expenses associated with base capacity, base transmission, and fuel. Purchase power (those three components) and our budget-to-actual (as of the drafting of this budget) appear to be flat (0.75% differential). Gas prices between the time we did this budget and today, have come down between 2% and 5%, which effects the fuel. But, again, it's a pass-through, so it doesn't really impact the bottom line. But it does impact the bottom line to RMLD consumers because it is a pass-through. For budgeting purposes on revenue, staff looked at the rates and the various classes of customers and made assumptions on their usage. With the existing rates and customer classes, it works out to be on average a 3% overall increase (assuming a decrease of 1% in sales). We are anticipating \$675m (for FY15), and for the FY16 budget we used \$668m.

Mr. Chrisos asked about power supply increased forecasted in the budget through 2020.

Ms. Parenteau summarized some of the anticipated pricing changes in purchase power (capacity, transmission, and fuel) including the impact of the natural gas supply on these costs. IRD is trying to develop programs that will minimize those peak demand charges (which is how RMLD is billed). In summary, Ms. Parenteau noted that about 75% of Operating Revenue represents the pass through (on purchase power) and 25% represents the base (to cover operating expenses).

Mr. Fournier presented the operating (expense) portion of the Budget, noting the Operating Budget is not a line item budget; which means if you see "x" amount of dollars next to one account, our hands are not tied to spend that amount – one good storm could impact a budget very easily. RMLD has to provide electricity; we cannot say we're over budget – wait till next year before you get your power back on. Mr. Fournier reviewed Slide 4, which summaries the total expenses in the FY16 Operating Budget totaling \$86.5m. Of that \$86.4m, nearly \$72m (or 83%) of the Budget is fixed costs (as outlined). The semi-variable costs, which is about \$14.5m represents about 17% of the budget. Mr. Fournier reviewed the semi-variable expenses, noting labor and employee pension/benefits is net of what is included in the capital projects (for the labor). Groups (all) at \$1.8m is the next large item and represents each department's unique expenses, which are needed for that department to function.

Ms. Parenteau spoke about the Conservation Programs, which are set at \$1m per kilowatt hour. On average RMLD collects approximately \$700,000 per year, which is ear-marked for conservation programs, including some expenses related to salaries for those engineers working with customers. RMLD has been without an efficiency engineer for about two years (a new person is coming on board May 18), therefore, that fund is currently a little robust. Ms. Parenteau provided a high-level review of some of the rebate programs intended to incentivize customers to conserve energy.

Mr. Jaffari reviewed the Tree Trimming costs, noting the tree trimming program has moved from a time-and-materials program to a per-span reimbursement program, which is more efficient. RMLD will work on a three-year cycle with the strategy of trimming main roads/switches first and then the laterals. The tree-trimming schedules will be included on the RMLD website. Chapter 87 requires we provide official IVM (Integrated Vegetation Management) Plans to each of the towns. These are now completed and will be sent to town tree wardens, administrators, and DPW directors. Staff will then meet with all the communities and tree wardens.

Mr. Jaffari went on to review Overtime expense. Per union contract, RMLD is obligated, to provide eight hours overtime to line department staff, when the an RMLD contractor is in our territory working. RMLD will be terminate the current underground construction contract as of September 1. However, we will utilize them as needed for specific jobs. This should reduce the overtime spending. Staff is tracking planned vs. unplanned overtime. Unfortunately, unplanned overtime (storms, motor vehicle accidents, etc.) drives overtime expenses up. Another factor which will impact overtime, are the long overdue maintenance programs, which may require overtime work depending on the severity of issues.

Mr. Jaffari continued with a review the training expense. As a result of the Reliability and Organizational Studies, RMLD will be providing more workforce training to bring staff up-to-date with the most recent technology, acceptable system design, and codes. Ms. O'Brien reviewed some other initiatives for training that are being implemented such as train-the-trainer, more on-site training (rather than sending staff out), inviting other utilities to share training (and costs), and utilization of vendors for free training.

Mr. Fournier continued the review of Semi-Variable Costs: property insurance; professional services (consultants, legal fees); office supplies, which, per FERC code, includes banking charges including credit card fees; vehicle repair and maintenance; rent expense; transformer hazardous spills; bad debt; injuries and damage; and the RMLB and CAB expenses.

Staff addressed questions from the CAB members regarding specific expense items including medical benefit costs, insurance costs, the impact of conservation programs on load/sales, overtime, maintenance programs and how they impact reliability statistics.

Ms. O'Brien updated the CAB on the Organizational and Reliability Studies. Based on the request of the Commissioners, Ms. O'Brien will be meeting with the commissioners one-on-one (no deliberations), to review the reports. There will then be a staff presentation by the consultants on the May 14, and on the evening of the May 14 there will be a presentation at the Board of Commissions meeting. Ms. O'Brien invited CAB members to attend.

Mr. Fournier continued the presentation with a review of the Staffing Report (slide 5). Current staffing is at 70.25. One IRD co-op position (with no benefits) is added in the FY16 budget. The second column reflects the vacancies. These positions were approved for FY15 but have not been filled; they are included in the FY16 budget. Ms. O'Brien noted that some of these positions are vacancies that carried over, not necessarily new positions.

Mr. Fournier stated that he had concluded his presentation of the Operating Budget and asked if there were any questions. There were no questions.

Ms. O'Brien noted that there were no positions in the Budget that were based on recommendations in the Organizational Study. If there are positions that they highly recommend (by the study), staff may have to come back and talk about that. Mr. Chrisos asked what the study recommended (regarding staffing). Mr. Jaffari reported that the study noted staffing shortages for engineering (5-6 people); Human Resources, and Accounting. Mr. Chrisos asked if the study spoke about a Health and Safety professional. Ms. O'Brien responded that we have a Human Resources person, and the Facilities Manager position, which is currently vacant, is the head of the Safety Committee; RMLD has a General Safety Committee and an Operational Safety Committee.

Mr. Christo made a **Motion** that the Citizens' Advisory Board recommend to the RMLD Board of Commissioners the FY16 Operating Budget with a Net Income of \$3,012,070 as presented, seconded by Mr. Mancuso. Hearing no further discussion, **Motion carried 4:0:1 (4 in favor, 0 opposed, 1 absent).**

Chair Hooper thanked the staff for their work in preparing the budget, and then opened discussion on the format for the annual budget presentation and discussion. Mr. Hooper noted that he likes the format, but suggested presentation of the Operating Budget ahead of the Capital Budget. Mr. Mancuso agreed, but noted that one unified document would be helpful, with presentation of the revenue and operations before the capital portion. Mr. Kelley asked if members wanted to continue with two separate meetings. The group agreed two meetings would foster open conversation.

3. Next Meeting – G. Hooper, Chair

The next meeting of the CAB was scheduled for May 20th.

Ms. O'Brien asked Mr. Chrisos how he would like to proceed with Town discussions around the Distributed Generator. Mr. Chrisos asked that a meeting be set up once the Board of Commissioners approves the Budget.

4. Motion to Adjourn – G. Hooper, Chair

Mr. Chrisos made a **Motion** to Adjourn the Citizens' Advisory Board meeting, seconded by Mr. Chrisos. **Motion carried 4:0:1 (4 in favor, 0 opposed, 1 absent).**

The Citizens Advisory Board Meeting adjourned at 7:57 pm.

Minutes Approved On: 9/19/19