

**READING MUNICIPAL LIGHT DEPARTMENT
CITIZENS' ADVISORY BOARD (CAB) MEETING**

**MINUTES
Regular Session**

Time: 6:30 p.m.

Date: Wednesday, December 4, 2013

Place: RMLD, 230 Ash Street, Reading, MA, Winfred Spurr/Audio Visual Room

CAB Members Present:

Mr. John Norton, Chairman (North Reading), Mr. Tony Capobianco (Reading), Mr. George Hooper, Vice Chairman (Wilmington), Mr. Thomas Ollila, Secretary (Wilmington)

CAB Members Absent:

Mr. David Nelson (Lynnfield)

RMLD Commissioner(s) Present:

Mr. Philip Pacino

RMLD Staff Present:

Ms. Coleen O'Brien, Mr. Robert Fournier, Ms. Jane Parenteau, Ms. Kathleen Rybak

1. Call Meeting to Order – J. Norton, Chairman

Chairman Norton called the meeting of the Citizens' Advisory Board to order at 6:35 p.m. and noted that the meeting was being audio taped.

Chair Norton asked that we move to Item 3 on the Agenda.

3. Approval of Minutes– J. Norton, Chairman

Materials: September 18, 2013, CAB Minutes

Chairman Norton asked for a motion to approve the minutes.

Mr. Ollila made a motion to accept the Minutes from the September 18, 2013, meeting as written, seconded by Mr. Capobianco. Hearing no further discussion, ***Motion carried 4:0:1 (4 in favor, 0 opposed, 1 absent).***

4. FY13 Annual Financial Report – R. Fournier

Materials: Town of Reading, Massachusetts – Reading Municipal Light Department – Annual Financial Statements for the Year Ended June 30, 2013.

Mr. Fournier reported that Melanson Heath presented their annual report at the September Board meeting. As noted under Opinions on page 2 of the report, RMLD had a clean opinion. Overall, the cash position is strong. We have no debt in the balance sheets - it's been like that for several years now. From a financial standpoint they were pleased with the results.

Mr. Fournier noted two items that were brought up by the auditors: Interest Income – they thought, based on what we had for available funds, that our interest income was a little low. We have been trying to adopt what the Town does (they have been investing in 13 week CDs which get about ¾ of 1%) and have started moving some of our money into CDs. Some of the longer term investments are earning 3-4%. We are probably going to move some money into that very shortly. We are hoping to move our interest income about \$25,000 to about \$125,000-150,000 annually once we move these monies.

The other point raised was the OPEB trust. We were carrying the liability and a Cash account on the RMLD's books. The Town's auditors (another branch of Melanson Heath), suggested that we set up a

trust to go along with the Town - similar to how the pension retirement system is set up. Mr. Fournier reported that he has been talking with the Town Treasurer and Accountant, and he will be working with them to set up the trust with the Town (not have the RMLD set up a separate trust). Since the OPEB liability goes out 25-30 years and the annual amount is nowhere near what the pension contribution is, we will make the recommendation to the Board that we - similar to how the pension trust is set up by the Town - have the OPEB be exactly the same, and therefore we do not have to have the RMLD set up an OPEB trust fund just as a funding mechanism for the OPEB liability. We spoke with the auditors and they thought it was a great idea, so we'll finalize all of that and make a recommendation to the Board early next year. Those were the only two things that came up in the discussion of the financial statements for the annual audit. We've already acted on most of it and will finalize both probably by February of next year.

5. FY14 Financial Report – October YTD – R. Fournier

Materials: October 31, 2013, Report

Mr. Fournier presented the Financial Report for the first four months of FY14. Mr. Fournier noted that year-to-date Fuel Revenues exceeded Fuel Expenses by \$1m. Looking at the \$1.7m YTD Net Income, \$1m of that is comprised of the Fuel Revenues being higher than Fuel Expenses, which is not a good situation. Basically, more than half of our income is made up of the variance between the Fuel Revenue and Fuel Expense, so it's something that needs to be watched. Mr. Fournier went on to review the remainder of the October report. With regard to the (General Information) Gaw revenues, the goal is to hit about \$2.5 which is what the Gaw remediation expenses were. Based on kilowatt hour sales projections, probably in January or February we'll stop making that charge on our bills.

Mr. Capobianco asked for clarification on Fuel Revenues and Fuel Expenses. Mr. Fournier replied, Fuel Revenue is the fuel charge you see on your bill (as a separate line item) - usually about \$0.04-0.05 per kilowatt hour used - that's what RMLD charges you for fuel. When Energy Services pulls together their purchase power costs every month, there are different components on that bill - part of that bill is the Fuel Expense - what type of fuel is being used to generate the energy. The two are compared - there is what customers are billed and there is what it cost RMLD. Ms. Parenteau monitors the fuel charge closely and makes the appropriate adjustments. Eventually, those two numbers will come together and the Fuel Revenue/Expense is a pass through. We don't make money on that - we try to get that as close as we can.

Mr. Hooper asked if this is considered, especially with the under budget, a sign of the times with the economy or do you think its conservative budget numbers. Mr. Fournier asked for clarification - for the revenue, expense or both? Mr. Hooper replied, for both. Mr. Fournier replied, growth (sales-wise) - we've been pretty flat. We thought we would have a little bump, there was a nice hot summer - but things have kind of flattened out. Expense-wise, we really haven't had anything out of the ordinary.

Mr. Hooper asked about collections. Mr. Fournier replied less than 4% of our receivables are over 61 days or older (as of November), which means only two invoices outstanding. Collections have been good. Lien letters just went out - this was the least amount of lien letters we've sent out for the four towns - less than 20 - there's been easily over a hundred in the past.

Mr. Capobianco asked if efficiency measures are counter-productive to our revenue. Mr. Fournier replied, yes. Basically, you are telling people not to use electricity, but we still have to cover our costs, so if they don't use enough electricity and our costs are still high or steady, we need to raise our rates to recover our costs. So people do realize some savings, but if everyone did massive savings and cut back - our fixed costs are still up here - revenues are down here. How do we cover those costs? The only way to do it is to raise rates, which kind of defeats the whole purpose. You are doing your part as far as the conservation goes, but when it comes to the pocket - what have I gained - it's a catch 22.

Tom Ollila stated, I think the goal is to have those cancel each other out so people's bills stay the same. But, it's a difficult balance.

Chair Norton noted that we will move back to Item 2.

2. Cost of Service Study – Coleen O'Brien

Ms. O'Brien noted, those that were able to attend the training session at 5:30, learned the Cost of Service (COS) process from Mr. Mayhew Seavey of Power Line Modeling out of Hopkinton, who is a well-known rate designer and economist in the utility industry. Ms. O'Brien reviewed some of the factors that lead to the request for a COS Study: a review of the projected revenues for the six year plan; the Standard and Poor's review for our credit rating (which went well); review of the load growth projected forward - it will probably make some sort of recovery - but over the last two years overall it's been extremely sluggish. This created a need to call for a COS Study sooner than was planned. The COS Study goes into a Cost Allocation, which leads into rate design analysis. The COS divides the cost of production into appropriate rate classes. This information would be presented to the CAB and then to the Board of Commissioners for implementation. The COS and Cost Allocation studies are comprehensive and take several months for all of the data to be loaded in and to be analyzed. This COS Study and Cost Allocation and Rate design (projected to be done within the next 3-4 months) will result in rates which will not only target each of the classes, but also provide a potential rate for LED street lights. An LED Pilot provides a mechanism for discussing an overall conversion. As a ballpark, the lights are probably between \$300-350 a piece (to fit on existing arms) for a total of anywhere between \$800,000 to \$2m for the lighting conversion (a breakdown will be based on the number of lights that we have). The town's DPW budgets will realize the energy savings, but RMLD would need to determine who will be paying for the conversion itself and how that fits into the overall capital budget and expenses.

Ms. O'Brien reported that she did not find a six year financial plan submitted with the FY14 Budget. When reviewing the last six year plan available it was noticed that the built-in load growths, overall, had not come in as projected and that there was an erosion of the revenues. The rate of return came in for FY13 at around 2%, which was well below the stronger historical figures of 5-6.6%. Speaking with Mr. Seavey and seeing the trends of the growth in RMLD, and then talking with Mr. Fournier and with some of the projections coming up with OPEB and other things (the pension fund, the transmission and capacity increases) we want to, not only look at the current, but these five to six year projections. Immediately, though, this 2% is getting worse as we approach the end of this fiscal year. So, realistically, in order to even be meeting around the 2%, there probably should have been a rate increase looked at during FY13. Ms. O'Brien noted that she didn't come on board until mid-July and wasn't able to identify the deficiency as the FY14 budget was already approved. She apologized for the urgency of ensuring that the RMLD take the necessary corrective action to end the FY14 year with a positive net income. Ms. O'Brien acknowledged that there is a normal protocol to go through, but is asking the Board to consider looking at this rate increase that is basically being done given the current projections and that a more detailed analysis would come out of the full blown COS Study. But, in order to ensure that we meet those revenue streams that are required to pay our commitments – in lieu of tax payments and the town payments – RMLD needed around a 4.5% increase last July. Now by the time we get through some of the process it will probably be January, and it will be up to about 9% on the base rate factors, which probably equates (for a typical 500kwh family, residential) to about \$3.00 additional per month. Ms. O'Brien acknowledged \$3.00 is a lot of money for some people. Ms. O'Brien asked what she could provide to help expedite the increase to at least make sure that we make those revenues. Ms. O'Brien assured the CAB that as we go forward (before any changes were proposed as a result of the COS for next July,) that we'll follow the normal protocol to give a sufficient amount of time to review the data in the COS and Cost Allocation.

Mr. Hooper said, that gives us enough heads up so that we can go back to our communities and speak to our managers and let them know what's coming so they are not blind-sided by this. That's what we are here for as far as the Advisory Board, and that is exactly what I am going to do – go back and speak with the Manager and the Board of Selectmen and let them know – I will get their input. Of course you are going to go through your Board of Commissioners?

Ms. O'Brien confirmed that she would be speaking to that at the next meeting. Obviously, with every rate increase we want to be looking at everything – we are keeping an eye on our expenses. There are a

lot of things that we are juggling, but I think (as Mr. Seavey spoke) the predominant reason why this occurred was the sluggish sales and the load growth over the last two years - it starts to compound very quickly. We want to at least be as proactive as the time will allow now that we have sufficient data. We want to ensure that the RMLD remains stable financially and meets all of their commitments. Mr. Hooper, cautioned that something that we need to be careful of also is, we are doing a 4.5% increase and talking about another for a total of nine. Is that what we are going to need? I would not want to have to go back and take another bite of this apple.

Ms. O'Brien responded, the 4.5% is the figure if this was on a six year plan and implemented last July. In order to collect between now and the end of June 2014 the figure is 9% of base charges, as discussed - what Mr. Seavey was confirming and I think Jane confirmed this earlier - would get us the revenue stream that we need to make all of our payments and to have the budget be where it was projected and as voted for approval. I don't think there would be another increase in order to make that revenue. The COS and Cost Allocation, though, is going from July 1, 2014, out five or six years so that will be another request to look at what the rate structure will be - if the rate structure changes, if there's new rate designs like the LED rate, and what that might look at. I can't tell right now whether there will be an adjustment down or any type of adjustment up at this time. We can wait and see what that data says for the next five or six years. But, I will tell you that having that done, and having that done in a six year fashion, if we go towards unbundling, we have that ability to really monitor where we are on our rate of return every single month. It gives us that ability to monitor it monthly and to always be on top of things. You can make a lot of dynamic decisions when you know what's happening monthly, and when the imbedded costs are broken out, you know exactly what you're being charged and where the costs are coming from.

Mr. Ollila added, we can also more proactively get that message out to the customer so they understand and they can hopefully adjust their planning and efficiency programs, or whatever, to get the most bang for their buck - to minimize their expenses. Ms. O'Brien agreed.

Mr. Hooper asked (relative to the LED street lights), because we've just changed a lot of our incandescents over to the 50 watt high pressure sodium, could you give us a cost of what you expect it to be from the 50 watt high pressure sodium to an LED fixture. Ms. O'Brien agreed to provide that information. It will be the comparison between a residential 50 watt high pressure sodium to an LED. The savings is in energy - that's why there's a new rate. But, there is a capital cost to do the conversion. A determination hasn't been made exactly who's going to bare the capital costs - I haven't finished that analysis to see what recommendation I would make of where that would come from. The utility could pay for the conversion and then the energy is saved through the tax rate - so it's not necessarily a rate of return for the RMLD on the capital investment. I just want to make sure that I present that with staff recommendations of how that fits into the rate as well. I understand that the towns want to save money on their energy, but at the same time it's hard to balance expenses while trying to do major capital improvements - not only on the reliability of the system and making the system more flexible for demand response, and costs associated with peak shaving in the future, and then also doing LED conversions. So, we are going to start off slow with just an LED pilot and rate structure so we have those mechanisms to make informed decisions. We also have that opportunity to talk to some of the other cities and towns that have made full conversions - what are their lessons learned? What would they do differently? Would they have done it at all? Did maintenance go up? Can you see through them? Who paid for the physical conversion? How much energy are they saving? Are they too bright? We will get all of that data that will come out of the pilot. So, slow and steady will win that race down the pike.

Chair Norton asked Ms. O'Brien to provide a write-up for each one of the members so that when making a presentation to the respective boards - we have a sheet that we are actually reading off in regards to this proposed rate increase. Ms. O'Brien agreed to provide that information.

Mr. Capobianco asked, are we looking for an immediate 9% increase? Ms. O'Brien replied, on the base charges only, which is about \$3.00 per month. Mr. Capobianco asked, on what bill - the December or January bill? Ms. O'Brien replied, the January bill. Mr. Capobianco asked, that's because our expenses

are exceeding our revenues? Ms. O'Brien replied, essentially. Mr. Capobianco asked about the LEDs – you had experience with that in your previous role in Danvers? Ms. O'Brien replied, right. Mr. Capobianco stated, one thing I was asked during my Board of Selectmen meeting was why couldn't we leverage that experience – is there a difference – things need to be set up differently here? Ms. O'Brien replied, because we don't have an Energy Efficiency Engineer yet (that would be the key person), I worked with Engineering to see if we couldn't free up one of the project managers to help out for the interim with a pilot study – I have heard from both groups that you want me to move with this. So, Brian Smith has been assigned. I gave him the LED pilot to use as a template using the same exact lights (because they have already been vetted) and he has been asked to look at any new lights that may have been developed by some of the companies just in the last several months (the pilot that was done previously is still fairly new) and to call some of these towns or cities, like Cambridge, to get their lessons learned. Then we'll proceed with trying to get different vendors to come in – some of the vendors might donate lights – some of them charge a rental fee and then you keep them up for six months – there are different ways of working with the vendors for those lights that we've targeted – those that seem to work well for not only illumination, but also for the linemen, with respect to operability, functionality and the other attributes that we look at.

Mr. Hooper stated, that technology seems to be advancing. Ms. O'Brien agreed, and the price is coming down too so that's fantastic. Mr. Capobianco asked, is that bad for the RMLD – LED street lights generating less revenue? Ms. O'Brien replied using less electricity and costing us \$2m or so if that's what we're paying – then yes, it would. Ms. O'Brien noted municipal street lighting is annual revenues of \$340,000 and annual expenses of \$497,000. Mr. Ollila commented, to use that example – this is already a negative 15% because our expenses are more. Would going to LEDs help us because our expenses would go down? Ms. O'Brien replied, I'd probably have to do a breakout of the expenses, but I would say that after your capital expenditure, whatever you are putting in for your depreciation expense to pay for whatever portion RMLD is going to contribute – your expenses should go down somewhat especially if they're good for as long as the manufacturers say they are. Some of the problems are not necessarily just the LED assembly lights – they last a good amount of time, but you also have driver mechanisms in there that give off an awful lot of heat. So how they are designed has a lot to do with how well they maintain and how long they last. There is a trade-off and the trade-off really lands on the RMLD side because it would be doing the maintenance and operation of the lamp and then the energy savings is realized by the towns.

6. RMLD Policy on Payment in Lieu of Taxes – R. Fournier

Materials: October 21, 2013, Memo from Rubin and Rudman, LLP

Chairman Norton noted that Mr. Nelson had reported that he was satisfied with what was written by Rubin and Rudman relative to this agenda item. There were no other questions.

7. Asset Inspection Program – C. O'Brien

Ms. O'Brien gave an overview of an Asset Inspection Program. For the most part, asset management is preventative and predictive maintenance – it improves reliability, allows better planning and scheduling of projects and crews, staffing, and reduces costs. The Reliability Study which is being called for as an integral part of the Organizational Study will be taking a look at asset inspection. When you look at the reliability of the entire system, it will help to identify the inspection programs that we do not have in place. That doesn't mean that I cannot create or have an inspection program of transformers or other assets that I can send out, but I'm waiting for that independent review going forward. Asset inspections allow a tracking and trending of each piece of equipment so that you can address a problem before it either fails or you have an outage. There is a whole array of inspection programs that will help to save money and to work getting RMLD from more of a reactive, to a proactive and preventative nature type of utility. In the longer run, it will improve the reliability and save money.

Ms. O'Brien addressed the recent leaks, and fuse and transformer failures. Out of the 700 or 800 transformers (because there really wasn't an inspection program before) there have only been 200 of them done so far. We have another 500 to go and a lot of them are much larger, so we are working to see how quickly we can get that done – hopefully before next summer.

Mr. Capobianco asked if any of the 200 resulted in needing to replace any others. Ms. O'Brien replied, there were two others that were weeping that were handled with minimal cleanup and then I believe there was another 30 that needed replacement. The whole point of that is to have the GIS to the point where it's collecting the data of what the usage is and you have a little macro program that adds up all of the customers that are connected to the transformer, it spits out a pretty easy formula that says here's your transformer – it can't be loaded more than this – you add up what your usage is and you know you want to keep your loading on your transformer in the middle – under-load is not efficient and over-load is not efficient - they both cost you money, and overloaded means either an oil leak or an outage. Uninspected transformers over long periods of time can rust out as we saw up in Wilmington.

8. Use of LED Street Lights- T. Capobianco
Included with Cost of Service Study discussion.

9. Review of CAB Policy #1 – J. Norton, Chairman

Materials: CAB Policy No. 1 Revision No. 1 (included in Packet) and Mr. Nelson's Edits (distributed).

Chairman Norton stated that Mr. Nelson had provided some additional comments/edits for CAB Policy No. 1. Chairman Norton asked that discussion of Policy 1 be tabled for a future meeting when Mr. Nelson is present to discuss his suggested edits. Mr. Nelson's draft was distributed to the CAB members.

10. 2014 Board of Commissioners Meeting Coverage – J. Norton, Chairman

Chair Norton asked Mr. Pacino if he knew what the anticipated schedule would be for the BOC meetings (the fourth or last Wednesday of the month where there were five Wednesday's in the month). Mr. Pacino responded that he did not know – that needs to be checked out with the Chairman. Ms. Parenteau stated that we typically indicated to the Board that the last Wednesday of the month would be preferable from the department standpoint. The January meeting is scheduled for the 29th. Chairman Norton asked Mr. Pacino to ask the BOC Chairman what his intention is for scheduled meeting dates for 2014.

The schedule for BOC meeting coverage for 2014 was set. A schedule will be forwarded to each CAB member.

11. Election of Officers – J. Norton, Chairman

Chairman Norton tabled this discussion until all members could be present.

Commissioner Pacino asked to address the CAB. Mr. Pacino thanked the CAB for inviting him – and noted it's always been one of his pleasures to come here (as one of the architects of the 20-Year Agreement) and see this body work – it gives me a lot of pride.

Mr. Pacino noted that the Town of Reading is presently having a Charter Review Commission - nothing has been finalized yet, but there are some changes in the Charter that we are talking about. Mr. Pacino noted that proposed changes could be found on the Town of Reading website, under By-Laws. If there is any input or concerns please communicate them back. Mr. Pacino is a member of that Committee representing Precinct 5 in Reading. The idea is to coordinate what is really going on and update some of the language. It is all tentative and far from final at this time.

12. Next Meeting – J. Norton, Chairman

The group discussed the timing for the next meeting in order to consider the request for a rate increase. Mr. Pacino noted that the BOC will meet on the 12th of December with a presentation to be made by the Department to the Board. Then the Board will look to the CAB - so you start the clock running on the 30 days. Mr. Pacino stressed the importance of moving on this quickly. Mr. Pacino also asked, Mr. Chairman, if you are going to appear in front of your different towns, we ask you to let the Department know those dates if you need some of the commission members in support.

Ms. O'Brien stated, if you know what the proposal is and you have the sheets (because it is just a preliminary finding), couldn't the 30 days start from today. Chairman Norton answered, no. The 30 days starts when the Board of Light Commissioners takes it up, as set by the 20-Year Agreement. Ms. Parenteau, commented, obviously you'll pick a date that works for you, but, if the BOC meets next Thursday, and if this was to go another month and you weren't able to meet until January, it wouldn't be effective until February. That 9% on the base would go to 10.5%, which would go to 14% the longer you postpone. A recommendation might be to meet the following week. Mr. Hooper asked, because you are looking for this to be effective on January billing? Mr. Norton, stated you are down to a narrow timeframe – you have a very short month here too – that's the problem.

Ms. O'Brien asked for clarification of the 30 days – once the CAB is notified by the Commissioners, they have up to 30 days? Mr. Pacino answered, 30 days on any agreement. Ms. O'Brien clarified, up to 30 days; if the CAB wanted to make that decision – they could make it right away – so any date after the 12th. If we can't make the numbers work and we can try and get a meeting before February... we have to have the rate to Bob before February 1st in order to make the February billing and then it would be 10.5%.

Mr. Capobianco, Mr. Hooper and Mr. Ollila were able to commit to the 19th. Mr. Capobianco said that he could not make a recommendation without first meeting with the Board of Selectmen. Chair Norton, noted that the CAB could meet and do whatever is necessary, but cannot act without consulting their town management. I can't guarantee that we can get to our respective Board of Selectmen. Ms. O'Brien noted, the cost of service will adjust it – if it wasn't needed, or it can be pulled back a little bit, then it will be adjusted July 1. Mr. Ollila asked, when the last rate increase was. Ms. O'Brien responded, 2010.

Chair Norton asked, in the meantime, if you could get whatever information is available out to the members so that we can at least contact our respective Chairs and see what agenda's we can get on, but, it's a very narrow timeframe. Ms. O'Brien noted that she would be happy to come to the meetings and would put together the requested information. Mr. Ollila noted that the competitive information on the increases for National Grid and others would be a helpful part of that as well. Ms. O'Brien noted, that another issue that Jane brought up, was because of the natural gas constraints, National Grid just went up 37% November 1 – just for that issue. So, there are a lot of adjustments that are being made right now for a number of reasons. This again, is a more sluggish economy. There hasn't been any major change in expenses or anything other than the sales are sluggish and it's just compounded.

13. Executive Session – J. Norton, Chairman

Mr. Hooper made a motion that the CAB go into Executive Session based on Chapter 164, Section 47D exemption from public records and open meeting requirements in certain instances to approve Executive Session Minutes of September 18, 2013, to discuss competitively sensitive issues, and return to regular session for the sole purpose of adjournment, seconded by Mr. Capobianco. ***Motion carried 4:0:1 (4 in favor, 0 opposed, 1 absent)***, by a poll of members present: Mr. Hooper, aye; Chairman Norton, aye; Mr. Capobianco, aye; Mr. Ollila, aye.

14. Motion to Adjourn – J. Norton, Chairman

Mr. Hooper made a Motion to Adjourn the Citizens' Advisory Board meeting, seconded by Mr. Capobianco. Hearing no further discussion, ***Motion carried 4:0:1 (4 in favor, 0 opposed, 1 absent)***.

The Citizens' Advisory Board Meeting adjourned at 7:48 p.m.

Respectfully submitted,



Thomas Ollila, Secretary

Minutes approved on: 1/23/14