

**Reading Municipal Light Department
Citizen's Advisory Board
Executive Session Meeting Minutes**

TIME: 7:00 P.M.
DATE: Monday, August 28, 2006
PLACE: Reading Municipal Light Department, General Manager's Conference Room
PRESENT: CAB: Messrs. Lessard (Wilmington), Carakatsane (Lynnfield), Norton (North Reading), Herlihy (Reading), and Vale (Wilmington)
RMLD Board: Ms. O'Neill
RMLD Staff: Messrs. Cameron, Ms. Parenteau, Mr. Seldon, and Ms. O'Leary
Via Conference Phone: John Coyle, Esq.

1. Call Meeting to Order – R. Lessard

Chairman Lessard called the meeting to order at 6:55 P.M.

Note: Item 3 was taken out of order.

3. Watson Unit Power Contract – V. Cameron, J. Parenteau, W. Seldon

Mr. Cameron stated that Ms. Parenteau and Mr. Seldon had met with the RMLB's Subcommittee on Power Rates on the Watson Unit Power Contract, which is a Braintree Electric Light Department (BELD) project. BELD proposes to build a high efficiency Simple Cycle aero derivative gas turbine generator with full power capabilities in 10 minutes or less with dual fuel capability (Natural Gas/No. 2 Oil).

Ms. Parenteau first explained the RMLD's Power Supply Needs as outlined in the presentation included with the agenda.

Mr. Carakatsane asked for an explanation of energy and capacity.

Ms. Parenteau explained that capacity is a fixed payment such as a car loan payment, and energy is the charge that is associated with the actual operation of the generator, like gas for an automobile--it makes it run.

Ms. Parenteau went on to explain that the Independent System Operators (ISO) tells the utilities what percentage of reserves over their peak demand is required. She then explained the power supply shortfall for the RMLD, the implementation of the Forward Capacity Market (FCM) by the ISO, and the three-year transitional period with fixed prices.

Mr. Vale asked if the ISO is implementing the FCM based on location.

Ms. Parenteau responded yes.

Mr. Vale asked for an explanation of a KW month.

Ms. Parenteau stated it is a monthly charge, and Mr. Cameron stated it is a financial term.

Ms. Parenteau stated that BELD has been working on this project for over a year, and that Braintree Town Meeting overwhelmingly approved the bonding. She stated that the Watson Unit would provide a capacity hedge at fixed costs. She said the Watson Unit would not be running all of the time, will be a peaking plant with a heat rate of 9 MMBTUS, and is not a base or intermediate unit, which are more efficient and run more often.

Ms. O'Neill asked why is the BELD not building a more efficient unit?

Ms. Parenteau answered that a new one would be more expensive to build and BELD is looking to satisfy more of its capacity need.

Mr. Seldon stated that although the spot market is cheap now, it would not be in the future, and that this contract would fill a RMLD capacity need.

Ms. Parenteau noted that the RMLD is diversifying its power supply portfolio, and this contract will fill a small need. She then explained the graphs in the presentation showing the load growth vs. existing capacity in the ISO-NE Wholesale Markets. She stated the peak is continually going up through 2020, and there is a need for new generation to meet this demand.

Mr. Vale asked if any anticipated impact on the ratepayers bills has been calculated.

Ms. Parenteau stated that for the last three years the ratepayers have received a refund of approximately \$3M because the Department had overcollected, however, with the added costs of this upcoming market there could potentially be no refund.

Mr. Cameron stated that the ratepayers have enjoyed the benefit of a low market for many years.

Ms. Parenteau stated that the ISO would determine the power supply need for New England. She said that the RMLD's need would be based on its peak plus a percentage that has to be carried as a reserve. Ms. Parenteau then described the Watson Unit characteristics, and added that this Unit will be replacing an existing unit so that the transmission infrastructure and fuel supply are already in place.

Discussion ensued on what other utilities were considering contracts and the permitting process including environmental permits.

Mr. Vale asked how the unit would be cooled?

Mr. Cameron stated it would be air cooled not water cooled.

Mr. Carakatsane asked when Braintree wanted to have the signed contracts.

Mr. Cameron stated September.

Ms. Parenteau said that the unit contract would replace 10% of the RMLD's deficiency purchased in spot markets or about 9 MWs. She stated the fixed Operation and Maintenance (O&M) plus debt service would be \$8.10/kw-month in 2009 with annual fixed payments of \$875,000. She said that this contract would be a long-term hedge in the FCM, and it will also provide for a fuel hedge during peak periods and that it has potential for Forward Reserves revenue due to quick start capabilities.

Ms. O'Neill questioned when the payments would be due.

Ms. Parenteau responded that payments will not be due until the unit is operating. She also noted that Braintree is taking all of the construction risks.

Discussion ensued on the LaCapra study and FCM scenarios including worst case -- nothing gets built.

Mr. Vale asked if conservation was included in the LaCapra Study.

Ms. Parenteau stated she would get Mr. Vale that information.

Discussion then ensued on Net Present Value, the Dighton Plant (formerly owned by Calpine), Taunton building a unit, and Annual Capacity Payments based on a 9MW purchase.

Ms. O'Neill asked if more efficient means cleaner.

Mr. Cameron stated that more efficient means a lower heat rate and a lower cost. He said all units are subject to the Clean Air Act and would have to meet those standards, so that more efficient doesn't necessarily mean cleaner.

Ms. O'Neill asked if the annual payment goes into the rate.

Mr. Parenteau stated that it goes into the base rate.

Ms. O'Neill asked why the RMLD isn't building a unit?

Ms. Parenteau responded that the Department is studying all of its options. She noted that special legislation is required for building a unit and a viable site for building.

Mr. Herlihy raised concerns on obtaining the balance of power supply needs in a certain period of time.

Ms. Parenteau stated that there is the transitional phase, and the Department will be exploring all options and buying from the ISO during the transition period. She added that auctions for power supply as outlined by the ISO would be held long before the supply is needed.

Discussion ensued on Braintree's construction risks.

Ms. Parenteau concluded the presentation stating that the Energy Services Department feels there is balanced risk between the parties in this unit contract.

Mr. Lessard asked when the Department would need a recommendation from the CAB.

Mr. Cameron stated by the RMLD Board's September 20 meeting.

Mr. Herlihy raised some concerns about owning capital, putting the Town of Reading at risk and how it would impact the Reading taxpayers.

Mr. Cameron stated that the RMLD is not a joint owner, and there is indemnification outlined in the contract. He stated the Department is not buying any capital, and that this is a 20 year contract with a possible extension.

Mr. Norton stated it equates to buying something from a supplier.

Discussion then ensued on the contract. Mr. Carakatsane raised questions in the contract regarding Article 4.1 - development costs; Article 9. - capital improvements; Article 11.1 - credit rating changes; Article 11.6 and Article 13 - seem to contradict each other; Article 14 - eliminated language. Mr. Coyle responded to the questions and clarified the contract language.

Discussion ensued on the memo dated August 23, 2006 from Attorney Coyle to Mr. Cameron and Ms. Parenteau regarding "Responses to Questions from the Rate Subcommittee, Mr. Soli and Mr. Hahn". Ms. O'Neill asked about the risk on additional investment. Attorney Coyle explained that BELD would have the bigger problem if they overrun the initial investment, and to keep in mind that BELD has a greater share in the unit.

Ms. O'Neill asked if all the issues raised would be finalized and reviewed before the RMLD Board Meeting on September 20?

Attorney Coyle stated that Appendix A was resolved last Friday as was Articles 19.5 and 11.5, and as far as the warranties and performance, those will depend on which turbine is selected. Attorney Coyle stated the importance to Braintree of having signed contracts.

Mr. Carakatsane asked what was next.

Mr. Cameron stated a recommendation to the RMLD Board of Commissioners.

Mr. Lessard stated that the CAB would want to see the final contract before approving it, and wants to make sure everyone is on the same page.

Mr. Vale asked for a status of approvals from other participants.

Ms. Parenteau responded that about one-half have signed contracts.

Attorney Coyle concluded with highlights of the contract noting that there is not a lot of damage exposure and any operational items go to arbitration. Mr. Coyle also stated that there isn't a better rating than a municipality.

Mr. Carakatsane made the following motion seconded by Mr. Norton:

MOVE that the CAB recommend to the RMLD Board of Commissioners to direct the General Manager and Energy Services staff to complete negotiations regarding the entitlement contract with Braintree Electric Light Department (BELD), and return to the CAB with a contract for final authorization.

Motion carried 5:0:0.

2. Minutes of Meetings – R. Lessard

February 28, 2006

Mr. Carakatsane made a motion seconded by Mr. Norton to approve the minutes of 2/28/06.

Motion carried 3:0:2. (Mr. Norton and Mr. Vale abstained.)

April 26, 2006

Mr. Carakatsane made a motion seconded by Mr. Norton to approve the minutes of 4/26/06.

Motion carried 3:0:2. (Mr. Norton and Mr. Herlihy abstained.)

4. Other Items for Discussion

None

5. Adjournment

At 8:30 P.M. Mr. Carakatsane made a motion seconded by Mr. Norton to return to Regular Session to schedule the next regular session meeting and for adjournment.

Motion carried 5:0:0 by a poll of the Board:

Mr. Herlihy – Aye; Mr. Carakatsane – Aye; Mr. Lessard – Aye; Mr. Norton – Aye; Mr. Vale – Aye.

Respectfully submitted,



Roger Lessard, Chairman

Minutes Approved on: _____

12/5/06

/pmo