


## MEMORANDUM

Date: August 1, 2019  
To: Karen Herrick, Finance Committee RMLD Liaison  
From: Coleen O'Brien, General Manager   
Subject: FURTHER EXPLANATION OF RESTRICTED CASH AND  
INVESTMENTS FUND BALANCES

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As the Finance Committee liaison, you requested at the Board of Commissioners' meeting on May 23, 2019, additional information regarding the RMLD's proprietary fund restricted cash and investment balances, as delineated in the Department's audited financials, section 2, page 18. Specifically, you asked the Board if there were industry standards. As deferred to by the Chair of the RMLD Board, I responded by saying that a comparison to other utilities would be difficult as not all utilities have exactly the same transactions, but that I would provide to you further explanation of each fund beyond that which is delineated in the said audit report. The following is in response to your request:

There are 41 MLPs in the state of MA. The fund designations can be considered typical for electrical utilities, including MLPs, Cooperatives, and IOUs. In the case of MLPs, funding designations and levels are established specific to that MLP's transactions and voted by that MLP's local governing board. As an example using the Rate Subsidization Fund, each MLP has a different power supply portfolio and rate structure. Depending on the risk assessment analysis for that MLP's power supply portfolio, that MLP governing board approves an appropriate rate stabilization fund balance. That MLP may or may not have combined fuel and stabilization funds. Some MLPs have All-Requirements power supply, where their power supply rate may have a premium risk insurance stabilizer cost imbedded into the rate. This stabilizer addresses some of the risks associated with their power supply costs. At the RMLD, our power supply is a mix of long and short term contracts, load-following contracts, tranche price and time trigger lock-in contracts (based on 4 year pricing averages), and open market. The RMLD, unlike some of the smaller MLPs, has an Integrated Resource group specializing in analyzing power costs and risks, to ensure the lowest competitive rate to all of the RMLD customers. The RMLD Rate Stabilization Fund was established to cover RMLD power supply related risks where high volatility, unpredicted events or projected increases could create rate shock. The fund level is targeted to address these types of scenarios to dampen the impact. Such incidents could be, but are not limited to: Federal

Energy Regulatory Commission (FERC) imposed orders; coincidental outages of base generators forcing high replacement energy costs; litigation on FERC rulings, ISO rulings, contract defaults/bankruptcy recovery costs, etc. To give the magnitude of a couple of realistic occurrences: FERC immediate order of Clean Air Acts enforcement resulting in multi-million dollar payments, litigation costs followed; coincident shutdown of Seabrook during Millstone's scheduled refueling outage during peak periods, forcing energy replacement pricing from \$50 MWh in excess of \$120+ MWh. Some incidents resulting in immediate costs exceeding \$1,000,000.

As a note, the last S&P Global Ratings affirmed it's A+ issuer credit rating in 2016, on the RMLD, which specified stable liquidity. The S&P evaluates fund balances. A new rating is anticipated at the end of the year.

The Town of Reading controls all of the cash for the RMLD. The RMLD has some visual capabilities of the daily transactions. The RMLD earns interest on depreciation, customer deposits, rate stabilization and sick buy back reserves; the interest is accumulated back to each fund. OPEB and Pension funds are separate cash reserves from the town. The interest on those funds are also accumulated back to each fund and is part of the basis calculation for the actuarial. The Town of Reading earns RMLD interest on the remaining funds, including the operating fund.

The following is an expanded explanation of the funds:

**Depreciation Fund:** The DPU requires an annual expensed 3% reserve for funding capital infrastructure improvements. Refer to the RMLD capital budget delineating the projected 6 year layout and financial funding, shown in the summary table.

**Construction Fund:** This fund augments the depreciation fund in financial support of the capital outlay. Monies are transferred from net operating revenue to the construction fund. The RMLD technology and electric system roadmap look out 20 years. The current and projected are captured in the six year budget help ensure, system reliability, stable rates and appropriate rate recovery. The Board of Commissioners vote on electric rate increases which in turn could also increase the rate of return, which is normalized at approximately 5.5%. Recommendations to increase from the normalized towards the reserve of an allowable 8%, have been made specifically on a temporary basis and in strategic concert with the approved capital outlay and financial projections. Longer term increases to the rate of return force the RMLD to depart from its mission goal of ensuring competitive low MLP rates. Short term increases are strategically analyzed and approved to coordinate with downward fluctuations in capacity, transmission and other power supply costs, and to address specific capital outlay projects. Refer again to the stated capital budget funding projection table.

**Deferred fuel reserve:** This fund is a pass-through of energy costs based on historical pricing, projections and reconciliation of actuals to help stabilize the rates. A motion was made and approved on June 24, 2009, regarding a reserve target balance of \$2.5 -2.9 Million. This fund fluctuates; the fuel adjustment is

calculated monthly. A copy of the most recent fuel adjustment can be found as Attachment A.

**Deferred energy conservation reserve:** The reserve fund holds the efficiency charge, which was motioned and approved on August 27, 2008. The charge is evaluated as part of the Cost of Service (performed every 3 years) and is approved as a filed rate to fund the expansion of the RMLD's efforts to promote energy efficiency, demand side management, and other appropriate energy conservation measures. Attachment B shows FY19 projections for programs and staff related time. The total cost is divided by the anticipated retail sales per customer class. The current charge is .001 per kwh and is the same across all rate classes. Eversource, for example, collects residential at .0175 per kwh.

**Rate Stabilization:** The expanded discussion can be found in paragraph 2, above. Overall, the fund is utilized to help stabilize rates resulting from power supply related cost fluctuations. A motion was made and approved on December 3, 2003 to target the fund at \$6.5M plus or minus \$500K. The scheduled Cost of Service Study will evaluate the rate stabilization fund balance to ensure proper funding; any overage or shortage is integrated into the rate analysis.

**Reserve for uncollectible accounts:** The fund balance targets historical uncollected debt from customer accounts. The RMLD has a superior record of its credit and collections. Given an annual billing of approximately \$97M, debt write off is typically under \$200K.

**Sick-leave benefits:** The fund was established to address liability related to the Collective Bargaining Agreements Sick leave buy-back benefits. Refer to the Message from the GM on the RMLD website regarding the IG report on sick-leave buy back.

**Hazardous waste fund:** The fund addresses insurance deductibles and extensive and/or cumulative equipment failure relating to hazardous waste releases, i.e. oil spills and other potential contaminants. One transformer oil release event at one substation could result in a single \$150K insurance deductible. The RMLD has 3 substations and approximately 4100 pieces of equipment containing oil.

**Customer deposits:** In accordance with the RMLD filed Terms and Conditions, customer deposits are held in an interest bearing escrow, of which the deposit and interest is returned to the customer when their RMLD account is settled in accordance with applicable regulations. Federal data on interest rates can be found at [www.federalreserve.gov](http://www.federalreserve.gov)

**Pension trust:** Based on the Town of Reading's most recent actuarial report, the pension is anticipated to be fully-funded by 2029. The RMLD annually expenses a reserve to the trust to achieve the town's goals relative to the RMLD's portion of the pension obligation. Please refer to pages 22-28 of the RMLD Audited Financials for a full explanation under the Reading Contributory Retirement System, and specifically paragraph H on pages 27 & 28.

Cc: RMLD Board of Commissioners

RMLD



Reading Municipal Light Department  
RELIABLE POWER FOR GENERATIONS

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Attachment A  
page 1 of 2

To: Coleen O'Brien

From: Maureen McHugh *mon*

Date: July 29, 2019

Subject: August 2019 Fuel Charge Adjustment

The Fuel Charge Adjustment (FCA) for the month of August, 2019 is projected to be \$0.0450 per kWh, which is the same as the July, 2019 FCA.

Customers who take service under the Residential & Industrial Time of Use Rate (TOU) will have an on peak FCA of \$0.09435 and an off peak FCA \$0.03087 for the month of August, 2019.

The purchase power for August, 2019 is projected to be 72,499,021 kWh's, this represents an estimated fuel cost of \$2,751,827. Based on standing projections the fuel charge revenues are projected to be \$3,114,189 or an over recovery of \$285,144. This results in the Deferred Fuel Cash Reserve (DFR) having an estimated August, 2019 ending balance of approximately \$3,368,802. The figures are shown on Exhibit 1 attached.

cc: Charles Underhill  
ec: Sharepoint

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## EXHIBIT 1

## TOWN OF READING MUNICIPAL LIGHT DEPARTMENT

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## PROJECTED BUDGET ANALYSIS FOR 2019

## PURCHASED POWER AND FUEL CHARGE ANALYSIS

	ACTUAL JAN	ACTUAL FEB	ACTUAL MARCH	ACTUAL APRIL	ACTUAL MAY	ACTUAL JUNE	BUDGET JULY	BUDGET AUGUST	BUDGET SEPT	BUDGET OCT	BUDGET NOV	BUDGET DEC	TOTAL 2019
POWER RECEIVED (KWh)	\$7,949,291	\$0,903,461	\$3,515,994	48,386,884	\$0,501,140	\$2,233,974	70,923,374	72,499,021	\$6,951,827	\$2,396,541	50,804,739	\$7,822,021	674,888,266
PURCHASED POWER EXPENSE (\$)	\$4,961,822	\$5,241,182	\$4,983,424	\$4,716,256	\$4,701,223	\$4,758,892	\$6,131,721	\$6,095,723	\$5,053,195	\$4,857,498	\$4,993,047	\$6,219,617	\$62,713,599
BASE ENERGY COST (\$)	\$1,769,388	\$2,508,978	\$2,454,879	\$2,491,028	\$2,621,317	\$3,129,384	\$3,379,894	\$3,338,394	\$3,183,041	\$2,946,304	\$2,823,788	\$2,988,852	\$33,635,227
FUEL COST (\$)	\$3,192,434	\$2,732,204	\$2,528,545	\$2,225,228	\$2,079,906	\$1,629,508	\$2,751,827	\$2,757,328	\$1,870,154	\$1,911,193	\$2,169,279	\$3,230,765	\$29,078,372
BASE ENERGY UNIT COST (\$/KWh)	\$0.0305	\$0.0493	\$0.0459	\$0.0515	\$0.0519	\$0.0599	\$0.0477	\$0.0460	\$0.0559	\$0.0562	\$0.0556	\$0.0517	\$0.0498
UNIT FUEL COST (\$/KWh)	\$0.0551	\$0.0537	\$0.0472	\$0.0460	\$0.0412	\$0.0312	\$0.0388	\$0.0380	\$0.0328	\$0.0365	\$0.0427	\$0.0558	\$0.0431
TOTAL UNIT COST (\$/KWh)	\$0.0856	\$0.1030	\$0.0931	\$0.0975	\$0.0931	\$0.0911	\$0.0865	\$0.0841	\$0.0887	\$0.0927	\$0.0983	\$0.1076	\$0.0929
KWh SALES	\$2,341,495	\$8,079,140	\$1,843,463	49,616,078	48,844,585	52,606,179	60,900,036	68,204,209	68,743,803	50,952,214	50,128,257	\$4,202,194	667,263,644
FUEL CHARGE ADJ. (\$/KWh)	\$0.0400	\$0.0400	\$0.0425	\$0.0425	\$0.0450	\$0.0450	\$0.0450	\$0.0450	\$0.0425	\$0.0400	\$0.0400	\$0.0375	\$0.0421
FUEL CHARGE ADJ. REVENUE (\$)	\$2,093,659	\$2,323,166	\$2,194,847	\$2,106,788	\$2,198,006	\$2,367,278	\$2,740,502	\$3,114,189	\$2,921,612	\$2,038,089	\$2,005,130	\$2,032,582	\$28,137,829
NYPA CREDIT	(\$87,936)	(\$123,640)	(\$110,063)	(\$87,209)	(\$128,313)	(\$103,775)	(\$77,583)	(\$71,717)	(\$74,692)	(\$106,063)	(\$87,513)	(\$92,495)	(\$1,170,998)
FUEL RECOVERY (\$)	(\$1,196,711)	(\$532,678)	(\$443,761)	(\$213,688)	(\$10,213)	\$633,995	(\$88,908)	\$285,144	\$976,766	\$20,832	(\$251,682)	(\$1,290,678)	
TO BALANCE WITH ACCOUNTING (\$)	(\$50,466)	(\$38,154)	(\$55,386)	(\$40,962)	(\$52,915)	(\$30,543)	\$0	\$0	\$0	\$0	\$0	\$0	
DEF FUEL CASH RES	\$3,937,851	\$3,366,019	\$2,886,872	\$2,632,242	\$2,569,115	\$3,172,566	\$3,083,658	\$3,368,802	\$4,345,568	\$4,366,400	\$4,114,738	\$2,824,080	

Industrial TOU Fuel Charge

On-Peak  
Off-Peak0.08935  
0.025870.09185  
0.028370.09435  
0.030870.09435  
0.030870.09435  
0.028370.08935  
0.025870.09144  
0.02766Attachment A  
page 2 of 2

# Attachment B

FY19

Program	JUL	AUG	SEP	OCT	NOV	DEC	JAN	FEB	MAR	APR	MAY	JUN	Total
<b>Residential Audits</b>													
Audits	\$4,375.00	\$4,375.00	\$5,250.00	\$5,250.00	\$5,250.00	\$5,250.00	\$5,250.00	\$5,250.00	\$5,250.00	\$5,250.00	\$5,250.00	\$5,250.00	\$61,250.00
HEA Kits	\$1,225.00	\$1,225.00	\$1,225.00	\$1,225.00	\$1,225.00	\$1,225.00	\$1,225.00	\$1,225.00	\$1,225.00	\$1,225.00	\$1,225.00	\$1,225.00	\$14,700.00
<b>Residential Programs</b>													
ENERGY STAR Appliance	\$7,600.00	\$7,600.00	\$7,600.00	\$7,600.00	\$7,600.00	\$7,600.00	\$7,600.00	\$7,600.00	\$7,600.00	\$7,600.00	\$7,600.00	\$7,600.00	\$91,200.00
EV Charger Rebate	\$1,875.00	\$1,875.00	\$1,875.00	\$1,875.00	\$1,875.00	\$1,875.00	\$1,875.00	\$1,875.00	\$1,875.00	\$1,875.00	\$1,875.00	\$1,875.00	\$22,500.00
Renewable Energy Rebate	\$4,000.00	\$4,000.00	\$4,000.00	\$4,000.00	\$4,000.00	\$4,000.00	\$4,000.00	\$4,000.00	\$4,000.00	\$4,000.00	\$4,000.00	\$4,000.00	\$48,000.00
Online Store (EFI)	\$500.00	\$500.00	\$500.00	\$500.00	\$500.00	\$1,500.00	\$1,500.00	\$1,000.00	\$500.00	\$500.00	\$500.00	\$500.00	\$8,500.00
<b>Commercial Programs</b>													
LED Lighting Rebate	\$21,000.00	\$21,000.00	\$21,000.00	\$21,000.00	\$21,000.00	\$21,000.00	\$21,000.00	\$21,000.00	\$21,000.00	\$21,000.00	\$21,000.00	\$21,000.00	\$252,000.00
EV Charger Rebate			\$3,000.00			\$3,000.00			\$3,000.00			\$3,000.00	\$12,000.00
Energy Initiative Rebate													\$150,000.00
<b>Software</b>													
ANBSys (eTRACK)	\$2,500.00	\$2,500.00	\$2,500.00	\$2,500.00	\$2,500.00	\$2,500.00	\$2,500.00	\$2,500.00	\$2,500.00	\$2,500.00	\$2,500.00	\$2,500.00	\$30,000.00
ChargePoint	\$270.00	\$270.00	\$270.00	\$270.00	\$270.00	\$270.00	\$270.00	\$270.00	\$270.00	\$270.00	\$270.00	\$270.00	\$3,240.00
Tangent	\$500.00	\$500.00	\$500.00	\$500.00	\$500.00	\$500.00	\$500.00	\$500.00	\$500.00	\$500.00	\$500.00	\$500.00	\$6,000.00
Events	\$200.00	\$100.00	\$100.00	\$100.00	\$0.00	\$0.00	\$0.00	\$100.00	\$100.00	\$100.00	\$100.00	\$100.00	\$1,000.00
Miscellaneous	\$50.00	\$50.00	\$50.00	\$50.00	\$50.00	\$50.00	\$50.00	\$50.00	\$50.00	\$50.00	\$50.00	\$50.00	\$600.00
<b>Total</b>													<b>\$700,950.00</b>

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