Reading Municipal Light Board of Commissioners
Regular Session
230 Ash Street
Reading, MA 01867
June 15, 2004

Start Time of Regular Session: 7:37 p.m.
End Time of Regular Session: 10:45 p.m.

Attendees:

Commissioners:	**Pacino, Soli, Herlihy, Kearns and *Ensminger** ***Mr. Ensminger arrived at 8:10 p.m.**
RMLD Staff:	**Messrs. Cameron, Blomley and Seldon** **Mses. Antonio, Benson and Parenteau**
CAB:	**Messrs. Lessard, Van Magness, Carakatsane and Norton**
Selectmen Liaison	**Mr. Veno**
Guest:	**Mr. Chuck Underhill, Vermont Energy Ventures**

Chairman Pacino called the RMLD Board of Commissioner's meeting to order at 7:37 p.m.

Chairman Lessard called the CAB to order at 7:37 p.m.

This meeting of the Reading Municipal Light Department (RMLD) Board of Commissioners June 15, 2004 is being video taped at the RMLD's office at 230 Ash Street, Reading, MA. Distribution of the tape will be available to the community television stations in North Reading, Wilmington and Lynnfield.

Minutes
February 18, 2004, March 10, 2004, March 23, 2004, April 21, 2004 and May 4, 2004
Mr. Herlihy made a motion seconded by Mr. Soli to approve the Regular Session minutes of February 18, 2004, March 10, 2004, March 23, 2004, April 21, 2004 and May 4, 2004.
Motion carried by a show of hands: 4:0:0.

Report of the Chairman of the Board
Community Relations Subcommittee Member
Mr. Pacino stated there is a vacancy on the Community Relations Subcommittee; however, this agenda item would be deferred until Mr. Ensminger is in attendance.

Selectmen Liaison, Citizen's Advisory Board and Customer Comments
Mr. Pacino polled those in attendance and there were no comments at this time.

General Manager's Report
Stonybrook Outage Insurance
Mr. Cameron explained that if Stonybrook had an outage during the months of July and August the RMLD would be subject to market prices, therefore, the Department has analyzed whether buying outage insurance for those months would be beneficial. During the last two years, the Energy Services Department evaluated this option and outage insurance was bought in order to keep costs down in such an event. The insurance cost for last year was $24,000/month for two months totaling $48,000, which would prevent the Department from paying higher prices in the case of an outage. However, this year due to new market rules and the caps that are in place now, Mr. Seldon and Ms. Parenteau, determined it is no longer cost effective to purchase this additional insurance.

Budget Variance Summary Report through April 30, 2004
Mr. Cameron informed the Board that Mr. Fournier could not attend the meeting; therefore, he would review the items of the Budget Variance Report through April 30, 2004. Mr. Cameron stated most of the items are under budget except the Line Department Labor Miscellaneous and that is basically due to rain and snow days. Mr. Cameron expects with the good weather coming those items should flatten out.

Financial Report, April 30, 2004

Mr. Cameron noted the Financials are in good shape as far as budget versus actual and noted on page 3A the last line should state, "Net Assets for the end of April." Mr. Cameron stated this shows the net assets at the end of April and the Department is $3.6 million ahead of the budget estimate, which is a combination of being $1.3 million higher than the revenue estimated and a little over $2 million under budget in the Operating Expenses. January was very cold which brought up revenues and the power supply is very solid both on the Fuel Charge and the Fixed Charge side. Mr. Cameron stated the cash position is very good from an operating point of view through the end of April. The operating cash at this time is a little over $9 million and the Rate Stabilization Fund is a little over $6.5 million. When the Financial results come out for August, Mr. Cameron will then determine if a recommendation will be made to the Board regarding a refund back to the ratepayers in November.

Mr. Van Magness noted when the Rate Stabilization Fund was discussed by both Boards earlier this year a decision was made to move the Rate Stabilization Fund down to $6.5 million, although that has been accomplished it was done by means of transferring it into the Cash Account. The Cash Account for last year has been excessive to what the cash needs are to the Department on a on-going monthly basis, therefore, Mr. Van Magness stated waiting until November for potential a refund to the ratepayers is far too long. Mr. Van Magness stated one of the things the Department should provide is what the average daily balance is on the Cash Account, not the end of the month average, the average daily cash. Mr. Van Magness stated this Department is running $9 million in the Cash Account and that is far in excess of the needs of the Department. He anticipated a rebate to the customers in the Spring, however, now it will be made in late Fall or early Winter and he doesn't see anything to substantiate why the operating fund cash requirement is any where near $9 million.

Mr. Cameron stated the Department refunded the ratepayers $3 million last November and the Department did not make the allowable 8%, it made 6.7% rate for return in 2003. Mr. Cameron stated it is good business practice to ensure the Department gets through the summer prior to making any decisions on a refund. Mr. Cameron's recommendation is to leave $6.5 million in the fund.

Mr. Van Magness stated he wants to see data on what the average daily cash needs are and how much of that cash balance is actually being used. Mr. Van Magness noted the 8% is only a regulatory allowance and the Department is able to earn up to 8% and no more but that does not mean it must earn 8%.

Mr. Cameron reiterated that the appropriate balance to have in that fund is $6.5 million.

Mr. Van Magness stated the cash in the reserve is a significant amount of money and the balance should be determined by the daily itemizations.

Mr. Cameron explained the balance could not be determined by the daily average basis because the payables are done on a weekly basis. Additionally, on the 20th of each month the Department makes a large power supply payment and the revenue requirement of the Department that is between $5.5 and $6.5 million. If anyone wants to see the numbers, Mr. Cameron can provide them, however, there is not a levelized amount because of the way the Department is billed from week to week.

Mr. Van Magness stated he would like to see what the analysis actually is and what an appropriate amount should be in the fund.

Mr. Carakatsane stated he understands Mr. Van Magness' concern regarding an increase in the Cash Fund without a refund to the ratepayers in Spring, however, he can also understand why the Department wants to wait until after the August financials to determine a refund to the ratepayers.

Mr. Herlihy questioned the Building Maintenance Cost, the outside services in April noting there was $17,000 budgeted for the entire year and $63,000 has been spent in one month?

Mr. Cameron replied those figures are due to three or four easement issues and other expenses in which it was imperative to hire legal and environmental surveys, however, the easement issues are nearly complete. Mr. Cameron explained the $17,668 is only through the end of April; the annual budgeted amount is actually three times that amount, approximately $54,000. Mr. Cameron further explained although the Department is over budget on that item, these are issues that needed attention and could not be avoided.

Mr. Pacino asked how the balance in the cash account and the 8% affect one another?

Financial Report, April 30, 2004
Mr. Cameron explained the two reasons why the Department only made 6.7% of the allowable rate last year. One was to get the Rate Stabilization Fund down to $6.5 million, there was a review of the capital account and the operating cash and it was determined there was enough money to fund the capital programs which is $4.7 million in 2004. The second was that in addition to the possible refund in November in 2004, there appears enough money available for the capital program and expense bills.

Mr. Pacino asked for an analysis to be done in order determine the amount that was in the operating cash fund in previous years since $9 million seems very high.

Mr. Cameron stated the Department would review this and report back to the Board.

Discussion ensued.

Mr. Soli questioned on page 5, the Budget Variance Schedule and Building Maintenance costs are $74,000, however, the actual budget is $17,000 and on page 13 under Building Maintenance legal the actual is $69,700 with a budget of $10,000.

Mr. Cameron stated the Outside Services on page 5 include the right of way and the Environmental Services.

Mr. Soli pointed out at the bottom of page 13 in the April Financial report where it notes Cogsdale costs as $26,800 for the year and CDM as $41,800. Mr. Soli stated he understood the project was now complete.

Mr. Blomley explained he is working on the finalization with Cogsdale but there is a substantial amount of money for holdbacks. The Contract had 30% holdbacks for all items.

Mr. Cameron further explained the system went live on March 1 and within the activity for the first three months there was training and the determination was made by Mr. Fournier and Melanson Heath to include the training as an expense item not a capitalized item. Therefore the amount shown is for training. Mr. Cameron will look further into this issue and report back to the Board.

Mr. Lessard stated it is customary to make sure the 8% has been reached every year by moving money from the Rate Stabilization Fund and this is the first year that he has heard of a 6.7%. Mr. Lessard noted less money moved from the Rate Stabilization Fund means more money refunded to the ratepayers and he has no problem waiting until after the August Financials to make the recommendation.

Transportation Expense Allocation
Mr. Cameron noted at the last meeting there were some questions about how the budget items went negative. Mr. Cameron stated Mr. Fournier put a table together to illustrate how the Department got to March 2004. If anyone has further questions, they should contact Mr. Fournier.

Melanson Heath & Company, PC Proposed Fees
Mr. Cameron explained the Board requested this information at their May 26 meeting because there was an item concerning moving the fiscal year to July 1 through June 30 and there was a schedule as to how this transition would occur. Mr. Cameron stated Mr. Pacino asked for the proposal and its included in the Board Book for review.

Mr. Pacino stated there is a letter signed by Ms. Martin, the Audit Committee Chair, basically agreeing to the prices that were in the proposal. Although Mr. Pacino is a member of the Audit Committee, this is the first he has heard of this letter and requested that in the future the Town informs him in advance. When this issue was discussed at the Audit Committee Meeting, Mr. Pacino was not in attendance, however, nothing was forwarded to him after that meeting.

Brief discussion ensued relative to the schedule of the fiscal year transition noting an audit being done from January 2005 through June 2005 in order to make that transition. In addition there will be an audit for this calendar and the third year will be another six month audit although from June, 2005 through June, 2006 the RMLD has nobody under contract. Mr. Cameron will obtain this information and report back to the Board.

Mr. Carakatsane stated the audit due to the changing of the fiscal year is costing the ratepayers a minimum of $23,500 and this was a requested by the Town of Reading with very little benefit to the service communities.

Discussion ensued relative to the audit issue and activity related to it.

Melanson Heath & Company, PC Proposed Fees
Mr. Ensminger reminded the Board this change of the RMLD Fiscal year to coincide with the Town's is required under one of the sections of Chapter 164 and is needed in order to be in full compliance with the law. This issue was also discussed during the RMLD Ad Hoc Committee.

Salem Harbor Litigation
Mr. Cameron informed the Board that the clean up of Salem Harbor will cost $85 million and the company who currently runs the plant, USGen, is in bankruptcy therefore does not have those funds. The Department of Environmental Protection and the Department of Energy Resources came to an agreement that each ratepayer in the Northeast Massachusetts load zone will pay their fair share of $85 million and loan the money to USGen. Mr. Cameron has been working with Washington Counsel and the other Massachusetts municipals on an intervention regarding this issue that the municipals cannot legally make a loan to bankrupt entities. In addition, the credit terms are highly favorable to USGen by using interest rates based on based on companies that are running well when they should really be using a much higher interest rate. The other issue was the repayment terms, which are not well defined; the repayment basically notes if US Gen makes money they will repay the municipals. Furthermore, it would cost the RMLD approximately $2.2 million over thirty-two months which will increase the cost to the ratepayers of approximately 1.2 mils per Kwh for every Kwh they use which would be a 1.3% increase. Mr. Cameron stated the cost of the legal is being split with Wellesley, Concord, and Danvers with the possibility of some other municipals in Massachusetts joining in as well, which will keep the cost to a minimum.

Mr. Soli noted in the *Boston Globe* Business section it stated the Attorney General agrees with the municipals and is filing with the FERC also.

Cost of Service Presentation, Chuck Underhill, Vermont Energy Ventures (VEV)
Mr. Cameron introduced Mr. Underhill of Vermont Energy Ventures (VEV) who performed the Cost of Service Study. He also introduced Ms. Parenteau, the Energy Services Manager, Mr. Seldon, the Senior Accounts Manager, Ms. Benson, the Key Accounts Manager and Ms. Antonio, the Human Resources Manager. Mr. Cameron then gave a brief explanation of the Executive Summary and relinquished the presentation to Mr. Underhill.

Mr. Underhill introduced himself and explained the Vermont Energy Ventures was engaged 18 months ago by the RMLD to review the allocation of costs with classes and the rate structure that is used as well as to make recommendations regarding where the rates stood and where they should move. Mr. Underhill explained when an allocation study is done; rules are used that were put into place specifically for the electric utility industry by a professor at Columbia University. When establishing a rate design policy, this professor indicated the public utility rate should be in fully compensatory to the utility including a fair return over time but they should also be fair without undue discrimination among customers and simple to understand while encouraging efficient use of services. Mr. Underhill stated those are the principles used when VEV does an allocation. The RMLD contracted with VEV to prepare two Class Cost of Services Studies. One was based on the 2002 actual operating results and the other was based on the budgets for 2003, which included changes to the power supply and a projection of 1% over the 2002 revenues. Once VEV completed this work, the results were compared to those of the 1993 Class Cost of Service Study that was previously performed within RMLD. VEV then evaluated existing classes of customers to determine how well those classes fit with the RMLD's operation and current market trends. Prior to commencing the study, Mr. Underhill stated existing rates were deseasonalized and reconfigured in addition to taking public schools and small commercial classes out of the existing classes and established separate groupings for them to determine if they were receiving fair allocation. In addition, VEV reviewed some of the existing programs and their continued effectiveness to the RMLD in light of the study of 1993. When VEV did the 2002 study, twelve separate rate classes were used and assigned into seven functional cost areas, which include capacity, transmission, energy, distribution, customer, energy efficiency and joint costs. Joint costs are those costs that are not directly allocated such as the overhead costs. Power costs were actualized by the staff at the RMLD and reviewed by VEV to determine whether or not they were in fact reasonable for the study's purposes. The power costs, which were functionalized, were broken into capacity, transmission and energy and those breakdowns totaled from the power supply bills that RMLD receives for their participation in ISO New England and transmission services. In addition, RMLD receives hydropower from the New York Power Authority that comes from two projects in Northern New York, the Niagara and the St. Lawrence Project. Those are supposed to be allocated to residential classes so those were tracked separately and assigned directly to the residential rate classes and credit given to the residential class for the displacement of resources it provides. All other power costs are then allocated on a homogenous basis without regard to specific class or characteristic of the entity. When distribution costs were allocated, distribution, operation and maintenance were included. Customer costs include direct cost plus metering and metering depreciation. Energy efficiency costs that were allocated in the study are simply energy efficiency charges that RMLD collects and passes through. The remaining costs, which are not directly allocated, are put into joint pool of dollars and are allocated as an overhead on a percentage basis.

Class Cost of Service Presentation, Chuck Underhill, Vermont Energy Ventures (Continued)
Those costs include interest expense, administrative cost and other costs that do not fall within the other functional areas. Capacity and transmission costs are allocated to rate classes using an allocation methodology, which is the most difficult of all the allocation facts because there is no specific data that is collected and available for RMLD. Consequently, VEV extrapolated some information about RMLD and other values within the Northeast in order to apply these factors into the RMLD study.

Twelve non-coincident peak calculations is the estimated contribution of the each class to the system peak for each of the twelve consecutive months that are included in this study. Energy is the easiest thing to allocate because it is simply allocated on the total Kwh sold to each of the rate classes. Distribution costs are allocated based on another demand allocation, customer costs are divided into customer service costs and customer costs. Those are allocated to each rate class based on a variety of meter and billing factors. DSM costs are allocated based on the total power costs that the DSM is intending to effect regarding transmission and energy. Basically, when the study result was reviewed it was found that for the three larger classes, Residential Rate A, the Commercial small demand customers and the large Commercial Time of use classes the ultimate variance for each of those classes are the largest at 1½%. Commercial only has a variance of less than ½% between what VEV thought the allocation should be and what the historic numbers were showing. In well over 90% of the study, there is less than a 1½% variance. Mr. Underhill explained in 2003 the same rate classes that were used in the 2002 study. Mr. Underhill further explained the revenues reflected a 1% growth of those rate classes and VEV used a power budget, which was provided by RMLD personnel, and that power budget reflected RMLD's change in contracts between 2002 and 2003, as well as anticipated changes in the way NE pool was going to be charging for services. In addition to the power budget the non-power expenses came from the RMLD budget and that was the budget approved by the Board of Commissioners. When VEV completed the 2003 version of the study the fuel adjustment charge was broken up and not included in the allocation but added it to the Kwh sales for each class so in fact the rate design was not used to allocate some of the costs to the various customers. Joint costs in particular were allocated to all of the other costs net of the fuel adjustment and again similar results were obtained although a little more volatility in the 2003 study results into some of the cost components of the classes. Again, the three largest classes, Residential Rate indicated instead of 1% decrease, a 1.66% increase, for the Small Commercial Demand class instead of a 3.4% increase, a 1.2% decrease and the Commercial Time of Use class instead of a 1½% increase, a 2.6% decrease. Again, overall those are fairly minor shifts in class responsibility designed and set in place for a period of 10 years. It also indicated the stability even with the changes that occurred in 2002 to 2003. The Class Cost of Service Study recommendation reviewed at the cost of maintaining a residential controlled water heat program and discovered those to be well in excess of benefits that the program provided. The VEV's recommendation is to combine those customers with water heater programs and the residential time of use rate results in a minimal amount of displacement to those customers and it would be cost effective for the RMLD system to implement and that is a change that the staff is in agreement with and also recommends. VEV also recommended the PASNY credit from a fixed monthly credit to a variable credit based on energy. One of the things discovered early on is that it is possible for a customer of the RMLD system who uses no energy or very little for one month charging receives a credit bill and that does not seem to be a reasonable result. There ought to be costs to having service even if you use no energy. In addition, a credit would be provided as an energy credit is more appropriate and that is the recommendation. Early during this study it was reviewed as to whether or not public schools were best served under the existing rate or whether that class had sufficient distinction from other commercial customers to warrant their own classification. Therefore, an allocation to public schools is lower so the recommendation is to create a new public school classification as a second tier and that would include not only public schools but also those schools that are providing primary and secondary education. VEV also recommended providing a small commercial customer rate option within the commercial demand class and under that option those customers would be exempt from the demand charge. What was found is that when those were broken into the separate classifications they would be more fairly treated if that were an option. The other two classifications that were maintained separately in the study is Contract Demand and Non-firm Demand rates and it was found there was not any benefit to RMLD or the customers to maintain those customers separately, therefore, the recommendation is for those two classifications to be eliminated and rolled into the appropriate commercial class.

After a question and answer period, Mr. Cameron stated the Board of Commissioners historically waits until the CAB returns with their recommendations prior to taking action on this issue.

Mr. Soli asked if 100% of fringe benefits would be assigned as customer costs?

Mr. Cameron answered yes.

Mr. Soli asked if 100% of Accounting Department costs would be assigned as customer costs?

Class Cost of Service Presentation, Chuck Underhill, Vermont Energy Ventures (Continued)
Mr. Cameron replied yes.

Further discussion continued.

Mr. Lessard noted the CAB must represent not only the residential ratepayers but also the commercial ratepayers as well and the industrial ratepayers. Therefore, even if the school does not directly relate to residential, it does relate to somebody who must pay more in their electric bill. Mr. Lessard stated he really does not want to see any changes considering the Department is doing very well and the Class Cost of Service Study proves that fact.

Mr. Pacino reiterated the CAB must give the Board input relative to this issue.

Mr. Carakatsane stated the CAB requests a little time to discuss this issue separately since the CAB is not scheduled to meet for another two weeks.

Mr. Herlihy made a point to confirm this process was indeed necessary since there has been no cost of service study for ten years.

Mr. Lessard made a motion seconded by Mr. Carakasane for the CAB to convene separately for continuing discussion.
Motion carried unanimously 4:0:0.

General Manager's Agreement
Mr. Ensminger stated this is a redrafting of the addendum to the General Manager's Agreement issue that was raised by the Town of Reading relative to compensation for health insurance, which has been addressed for the current wording.

Mr. Ensminger made a motion seconded by Mr. Herlihy to reconsider the prior approval and vacate the motion.
Motion carried by a show of hands: 5:0:0.

Mr. Soli moved to approve Addendum One to the General Manager's Employment Agreement seconded by Mr. Ensminger.
Motion carried by a show of hands: 5:0:0.

Executive Session
At 10:20 p.m. Mr. Ensminger made a motion seconded by Mr. Herlihy to enter Executive Session to discuss strategy with respect to litigation, and return to Regular Session for the purpose of continuing the regular session.

Mr. Pacino called for a poll of the vote:
Mr. Soli Aye; Mr. Herlihy Aye; Ms. Kearns Aye, Mr. Ensminger Aye; and Mr. Pacino Aye.
Motion carried by show of hands. Motion carried 5:0:0.

Regular Session reconvened at 10:40 p.m.

Mr. Lessard informed the Board that the CAB does not approve the Cost of Service Study and will continue their discussion of this issue at their next meeting.

Next Meeting
Wednesday, July 21, 2004.

Motion to Adjourn
At 10:45 p.m. Mr. Soli made a motion seconded by Mr. Herlihy to adjourn the Regular Session.
Motion carried by show of hands. Motion carried 5:0:0.

A true copy of the RMLD Board of Commissioners minutes as approved by a majority of the Commission.

Daniel A. Ensminger, Secretary
RMLD Board of Commissioners