

Reading Municipal Light Board of Commissioners
Executive Session
230 Ash Street
Reading, MA 01867
November 28, 2007

Attendees:

Commissioners

Ellen Kearns, Chair

Mary Ellen O'Neill, Secretary

Robert Soli, Commissioner

Richard Hahn, Vice Chair

Philip Pacino, Commissioner

Staff:

Vinnie Cameron, General Manager

Paula O'Leary, Operational Assistant

Jeanne Foti, Executive Assistant

William Seldon, Senior Energy Analyst

Citizens' Advisory Board:

Arthur Carakatsane, Secretary

Andrew Herlihy, Member

John Norton, Member

Quincy Vale, Member

Guest:

RMI Presentation, Dan Conrath

Resource Management Inc.

Presentation on Gas Hedging Program Related to Heat Index Contract with Constellation

Mr. Conrath reported on the history of RMI and its customer base. RMI has been on the Chicago Board of Trade since the mid 90's. Mr. Conrath went over their corporate client list, such as Nestlè and Ocean Spray. Local municipal electric utilities that use their service include, Georgetown Municipal Light Department, Littleton Electric Light Department and Middleborough Gas & Electric. RMI's clients have on average 15% to 18% whose customers involve gas.

Mr. Conrath explained that a hedge plan is not initiated; it is substantive and mitigates price exposure. Mr. Conrath then addressed the heat rate, which is a component of RMLD's power supply. He provided the example in which there was a spike in natural gas prices after Hurricane Katrina in which gas rose from 7 to 15 MBBTU's. RMI's approach is to control energy prices by minimizing volatility that leads to price stability over time. By taking this method, it provides for discipline and structure in gas purchases.

Mr. Conrath said that the heat rate is tied into physical exposure, which in turn is tied into the financial end.

Mr. Vale said that the implicit value of stability is worth the cost of transmission fees.

Mr. Conrath said that hedging over time has a premium, but hedging is protracted and is difficult quantify because it depends on a point in time.

Mr. Conrath then described how to combat second-guessing. He addressed the mean as mechanism for selecting gas pricing, however, the RMLD uses fixed prices for its gas pricing. Mr. Conrath discussed the four variables that should be used to achieve reasonable and rational pricing diversification.

Mr. Conrath explained the RMI Price Matrix and how it is tied into the NYMEX natural gas prices and is based on a four-year matrix.

Mr. Vale asked why it is not a longer data set such as fifteen years?

Mr. Conrath replied that they have found the four-year matrix works best.

Resource Management Inc.

Presentation on Gas Hedging Program Related to Heat Index Contract with Constellation

Mr. Vale commented that the volatility of the gas prices is driving the price of the hedge. However, if the volatility is high the insurance is high, but the converse holds true because when there is no volatility the price of insurance is low. The value of hedging is stability.

Discussion followed about such events as Hurricane Katrina and Enron and their impact on gas prices.

Ms. Kearns asked about caps and callers for a heat rate index contract.

Mr. Conrath replied that a cap is an insurance policy and it makes sense to have them in a contract.

Mr. Seldon said that in this current heat rate index contract with Constellation the RMLD did not ask for a cap. He said that the cap will be incorporated in future contracts. Mr. Seldon reiterated RMLD's layering and laddering purchasing strategy for its power supply in order to provide flexibility.

Mr. Carakatsane said that the RMLD's power supply portfolio includes some heat rate portion based on the purchasing power supply strategy.

Mr. Cameron said that the RMI model can be utilized as a guidance tool to lock in the heat rate index in the future. Mr. Cameron is seeking backing of the motions from the CAB and the Board.

Mr. Carakatsane made a motion seconded by Mr. Norton to recommend to the RMLD Board of Commissioners that the CAB endorse the Risk Management, Inc. hedging strategy as presented to the CAB on November 28, 2007.

Motion carried 4:0:0.

Ms. Kearns asked if this was needed?

Mr. Soli said that he could not understand why the Board is voting upon this issue because under Chapter 164 it is in the purview of the General Manager.

Mr. Cameron explained that the CAB makes recommendations on these items because it impacts the rates. The Board as a matter of past precedent has voted upon recommendations made by the CAB.

Mr. Hahn made a motion seconded by Mr. Pacino that the RMLD moves to adopt the Risk Management Inc. Hedging Strategy as presented to the RMLD Board on November 28, 2007 on the recommendation of the General Manager and Citizens' Advisory Board.

Motion carried 4:1:0. Mr. Soli voted against this motion.

At 9:47 p.m. Mr. Herlihy made a motion seconded by Mr. Vale to adjourn CAB's Executive Session.

Secretary Carakatsane called for a poll of the vote:

Mr. Norton, Aye; Aye; Mr. Vale, Aye; Mr. Herlihy, Aye; and Mr. Carakatsane, Aye.

Approval of Minutes of October 24, 2007 Executive Board Meeting

Mr. Hahn made a motion seconded by Mr. Pacino to approve the Executive Session meeting minutes of October 24, 2007 as presented.

Motion carried 4:0:1. Mr. Soli abstained.

Update on Union Issues

Mr. Cameron updated the Board on the status of the IBEW 103 contract. At the last Executive Session Meeting Mr. Cameron had said that the agreement on the IBEW contract had fallen apart because the IBEW believed that the salary ranges should have been increased by the salary increased of 4%, 4%, 3%. The parties met again with the arbitrator and came to an agreement to increase the salary ranges 3% each year. The agreement has been signed by the IBEW and it is ready tonight for your signatures.

Adjourn

At 9:52 p.m. Mr. Hahn made a motion seconded by Mr. Pacino to return to the Regular Session.

Motion carried 5:0:0.

Chair Kearns called for a poll of the vote:

Mr. Hahn, Aye; Aye; Mr. Soli, Aye; Ms. O'Neill, Aye; Ms. Kearns, Aye; and Mr. Pacino, Aye.

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

Mary Ellen O'Neill, Secretary
RMLD Board of Commissioners