



Town of Reading Meeting Minutes

Board - Committee - Commission - Council:

RMLD Board of Commissioners

Date: 2020-01-07

Time: 07:30 PM

Building: Reading Municipal Light Building

Location: Winfred Spurr Audio Visual Room

Address: 230 Ash Street

Session: Open Session

Purpose: General Business

Version: Final

Attendees: **Members - Present:**

David Talbot, Chair; John Stempeck, Vice Chair; Thomas O'Rourke, Commissioner; David Hennessy, Commissioner; Philip B. Pacino, Commissioner

Members - Not Present:

Others Present:

RMLD Staff: Coleen O'Brien, General Manager; Hamid Jaffari, Director of Engineering and Operations; Charles Underhill, Director of Integrated Resources; Wendy Markiewicz, Director of Business, Finance and Utility Technology; Zachary Borton, Tracy Schultz, Executive Assistant

Vivek Soni, Citizens' Advisory Board

Minutes Respectfully Submitted By: Philip B. Pacino, Secretary Pro Tem

Topics of Discussion:

Call Meeting to Order

Chair Talbot called the meeting to order and read RMLD's Code of Conduct. Chair Talbot announced that the meeting is being videotaped at the RMLD office at 230 Ash Street, for distribution to the community television stations in North Reading, Lynnfield, and Wilmington. Chair Talbot asked Mr. Pacino to serve as Board Secretary.

Public Comment

There was no public comment.

Chair Talbot stated that the CAB met immediately before the Board. Mr. Soni stated that the main topic was a financial update. Chair Talbot added that the

Approval of Board Minutes

Mr. Pacino made a motion, seconded by Mr. Hennessy that the Board approve the meeting minutes of July 18, 2019 and September 19, 2019 on the recommendation of the General Manager.

Motion Carried: 5:0:0.

Payment to the Town of Reading

a. Payment to the Town of Reading

Mr. Pacino made a motion, seconded by Mr. Hennessy that the Board of Commissioners vote to request the Citizens' Advisory Board to review and comment on three payment options

Payment to the Town of Reading

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presented by the (1) ENE study, and the (2&3) GM (in concert with the Business Finance Director) and provide such feedback to the Board of Commissioners for their final approval of the Town of Reading payment.

Option 1: Transition over five years to a formula based on annual kWh sales of 3 mils per kWh.

Option 2: Extend existing \$2.48 million payment through 12/30/21; then, effective on the 7/1/22 payment, move formula to approximately the average mil/kWh over the last 3 years at 3.75 mils. Continue payment schedule of two payments per calendar year, calculated for the payment year using 3.75 mils of the previous calendar year's audited financial kWh sales.

Option 3: Freeze at current \$2.48 million for 10 years with last payment 12/30/2029

Motion Carried: 5:0:0.

Chair Talbot stated that there are tables posted on the website. Ms. Markiewicz explained the reasoning behind the options being presented are to maintain the strategic financial plan and the RMLD mission statement, to cover the cost of production, to cover all town payments above and below the line, to minimize projected annual rate increases, remain competitive in the middle of the rate comparison classes, cover capital improvement plan and all scheduled construction transfer from operating fund, to depart from the temporary eight percent rate of return to a six percent rate of return, maintain two to three times the monthly operating expenses to operating cash ratio, preclude conversions of operating income ratios to town payments, to continue financial due diligence and financial planning to review electric sales, expenses, capital outlay, rate comparisons, the rate of return, operating fund, system status and other financial obligations. The first option is based on the Energy New England study, which says RMLD should get to three mils per kWh sale for the Town of Reading payment. This is the below the line payment. The transition will occur over five years. It would start at 3.5 and go down each year to Calendar Year 2029 and ending at three mils at a payment of \$1.9 million. This is based on sales staying flat. Mr. O'Rourke asked why RMLD was projecting flat, rather than declining, sales. Mr. Underhill explained that the electrification program, including the electric vehicle and heat pump programs, will provide growth and sales opportunities. Some of the reductions in load over the last seven or eight years due to efficiency and economics effects have stabilized. There are new apartment complexes. Mr. Underhill stated that based on what he has been seeing, changes in the economy and the slowing of efficiency, he is predicting sales remaining flat. As electrification programs accelerate, RMLD may see a half to a one-percent increase in load growth.

Ms. Markiewicz stated that option two is based on the RMLD strategic plan. An average of 3.78 mils per kWh sales is the flat 655 million kWh sales as compared to \$2.48 million. RMLD would be willing to go to a 3.75 stable mils per kWh sales through 2027. That would drop the payment slightly from \$2,480,000 to \$2,458,000. It would be a stable formula to work with.

Ms. Markiewicz explained that the third option would entail RMLD continuing with the \$2,480,000 payment over a ten-year period. The amount would freeze. Ms. Markiewicz added that all three options are pending catastrophic events or an unanticipated decline in kWh sales.

Vice Chair Stempeck stated that the options based on mils could result in the payment going up if sales were to increase. Ms. Markiewicz stated that the intention is to use an indicator of the health of the utility for the formula. Mr. Pacino stated that in option three everyone wins but he is concerned about what the process will be in future years when the formula needs to be revaluated. Ms. Markiewicz stated that in past meetings it was discussed that the Commission would choose an option and would also choose a timeframe to readdress the situation. Chair Talbot stated that the spirit of option two keeps the payment flat but ties it to sales. Ms. Markiewicz stated there is note bene that given the current financial status of the RMLD, a rate increase of up to five percent is projected over the next ten years to meet strategic financial

Payment to the Town of Reading

plan objectives and any catastrophic event or steady decline in kWh sales could impact the objectives and the payment option. Vice Chair Stempeck stated the options represent a best effort going forward, and if extenuating circumstances occurred there would be no promises. Mr. Hennessy clarified that if option three was chosen and sales were to drop, then the rates would have to go up. Ms. Markiewicz affirmed. Mr. Hennessy then clarified that with option two, if sales drop then the payment would drop, and there would be no rate increase (associated with the payment). Ms. Markiewicz affirmed and stated that regardless of what kWh sales are, RMLD would be paying 3.75 mils, so if kWh sales drop then the payment would drop. If sales increase: the payment would also increase. Mr. Hennessy commented that option is more of a win-win. Chair Talbot stated that should encourage municipalities to promote electrification. Mr. Hennessy stated that option one is clearly the healthiest option for RMLD but would affect the Town's budget the most. Chair Talbot stated the CPI payment has gotten out of control. Vice Chair Stempeck stated the options will go to the CAB and they can get back to the Board. Mr. Pacino suggested taking option three off the table. Mr. O'Rourke stated that the Town is looking for predictability, that a timeframe of five years would be beneficial, and that there needs to be a threshold for if kWh sales dip below a certain point. Chair Talbot stated that the Board would be able to revisit the formula at any time. Ms. Markiewicz stated that first and foremost, the RMLD is responsible to ratepayers and the reason for the third option was to address the Town's need for a consistent number. Ms. Markiewicz stated that she and Ms. O'Brien had discussed that if option three was chosen, that if there was a decrease in kWh sales three years in a row, then there would be a move to adjust the formula. Chair Talbot stated that tweaks can be made when the Board is at the point of deciding but at this point the Board is only sending options off to the CAB for input. Mr. Pacino asked Mr. Soni for his opinion. Mr. Soni replied that he will tell the CAB that the Board is coming up with proposals that they would like the CAB to review, have a discussion, and make a recommendation. Mr. Soni stated that at the CAB meeting earlier that evening, it was discussed that the Town of Wilmington is looking to plan 18 months out. Mr. Soni asked if the lag in the system would account for the Town's budgeting. Ms. O'Brien stated that the lag would be that the formula would be based on the previous audited year's kWh sales. Ms. O'Brien clarified that the conversation in the CAB meeting was about how there was no rate increase for Calendar Year 2020, however, the projection of a potential rate increase for the second half of a Town's Fiscal Year 2021 would be communicated prior to the start of the Town's budget. Ms. O'Brien stated she wasn't aware until this evening that Wilmington starts its budget for 2021 in November 2019. Regardless of whether calendar or fiscal year, RMLD was never able to project 18-months out. The RMLD will continue to provide Town fiscal rate input in March, as has previously done. RMLD has currently a six-year-plan that shows a rate increase every single year; the next couple of years the rate increases are scheduled to be augmented by rate stabilization. Ms. O'Brien stated that regarding the payment, RMLD spent a lot of time evaluating what is an indication of the health of the utility. Chair Talbot reiterated that the options are being sent to the CAB for feedback and then the Board will make a decision.

Ms. O'Brien's evaluation

a. Discuss evaluation methodology presented by Mr. Hennessy together with any amendments

Mr. Hennessy explained that the current performance evaluation system is outdated and could be more effective. The current evaluation is only done once a year and current HR trends are to review performance closer to when it occurs. Mr. Hennessy added that using a numerical ratings system stifles conversation and combining performance and pay conversations stifle dialogue. Mr. Stempeck stated that the Board should agree on a decided number of goals for Ms. O'Brien and stated that the evaluation needs to tie in with Ms. O'Brien's contract. Mr. O'Rourke and Mr. Hennessy presented a document they prepared. Mr. O'Rourke explained that the idea is to simplify the process and make it quick, smooth, and efficient. It provides multiple opportunities for dialogue and communication. The old process focused on past behavior, the new process will focus on how to improve current performance and development. Studies suggest that the old system is adversarial. The new system will be collaborative, focus on team success, and will build upon strengths. It is a goal and project review, will help with obstacles and challenges, will

Ms. O'Brien's evaluation

a. Discuss evaluation methodology presented by Mr. Hennessy together with any amendments

acknowledge successes, and the role of the Commissioners will be to provide coaching. Vice Chair Stempeck states he's unaware of any corporation that does this for their CEO and that the Board's role is to hire the General Manager and make capital level approvals; this moves the Board into a different sphere of influence, which he is all for. Mr. O'Rourke stated that there will still be an annual compensation review, but it will be tied into the quarterly check-ins. Chair Talbot stated this will be an action item for the next meeting.

2020 Board and GM Goals – discussion and potential action item

Vice Chair Stempeck stated that the members of the Board should each come up with five goals for the General Manager to be circulated before the next meeting. The Board can then pick three and vote on them. Ms. O'Brien stated that RMLD's primary goal is to provide reliable electric service. Chair Talbot stated the Commissioners will send their goals to Ms. Schultz and then the Board will whittle the list down for the next meeting.

Ms. O'Brien stated that her contract requires that she get Board approval to carry over unused vacation time.

Mr. Pacino made a motion, seconded by Mr. Hennessy, to authorize the General Manager to move any unused vacation time from calendar year 2019 to the first quarter of 2020.

Motion Carried: 5:0:0.

Integrated Resources Division

a. Power Supply Report – September, October and November 2019

Mr. Underhill stated that if RMLD could add 1,700 electric vehicles to its service territory that would represent one percent of its load. There are currently between 250 and 400. Mr. Underhill stated that power supply is very stable but that he has asked his team to track the volatility of oil and gas prices. RMLD's exposure is limited. RMLD is going to finish the year below budget expectations. The cumulative differential is about two-and-half-million dollars below budget. Mr. Underhill reviewed capacity and transmission costs and the resources used throughout the year. Many of the contracts are expiring in the next year.

b. Power Supply Report

Mr. Underhill discussed what the portfolio has been comprised of for the last ten years. There is a bubble of capacity costs, which are now dropping down. Transmission costs are growing. Energy costs have been stable. Mr. Underhill explained that RMLD will have open positions and will need to decide whether it wants to stay with market power, which is the lowest cost and most volatile. Or, RMLD can enter into power contracts. Lately, RMLD has been investing in non-carbon. Mr. Underhill discussed the Golden Bill, which would have the municipalities catching up and matching investor-owned utilities commitment to non-carbon. Mr. Underhill stated that RMLD meets every non-carbon standard through 2029. There are choices RMLD must make going forward and until RMLD commits to certain prices there is a lot of risk. Mr. O'Rourke asked if Energy New England helps. Mr. Underhill replied they are negotiating and bringing opportunities to RMLD. RMLD also enters contracts bilaterally. There is a good balance. The NextEra TFA pilot program began in 2019 and buys blocks of peak and off-peak power. Forward price curves go out two years. It is price risk mitigation and puts downward pressure on power supply costs. It is structured decision-making. Activity to date for what has been locked in is almost \$33 million. Mr. Underhill stated RMLD also did a pilot load following program. The objective of the program was to take out load and price volatility and risk. The program performed as NextEra said it would but because RMLD has more resources than most municipalities, RMLD thinks it can manage its own portfolio in terms of load following. Mr. Underhill reviewed peak management programs: the natural gas generator, the battery energy storage and customers participating in shredding the peak. There are negative numbers shown for Solar Choice but that's due to timing issues. To date, \$1.5 million has been saved in capacity and transmission over two years.

b. Power Supply Report

Ms. O'Brien stated she asked Mr. Underhill to make this presentation because the renewable policy needs to be updated and RMLD is the requirements of its current policy. Ms. O'Brien stated that the question is what the Board would like the renewable policy to say. Right now, it says there will be a certain percentage of renewables with or without the RECs. Ms. O'Brien read an excerpt from the Golden Bill describing the criteria for non-carbon. Ms. O'Brien stated that of the RECs that RMLD sells, the money goes into non-carbon and renewable projects so that RMLD can continue to meet non-carbon standards. Municipal utilities are the number one investors in clean power going forward. That's where the REC money is going.

Mr. Soni asked about meeting the projections through 2029 and asked if that accounts for the RECs. Mr. Underhill stated that RMLD is meeting the non-carbon standard. It allows RMLD to include sold RECs. RMLD is working in good faith with the legislature in terms of complying with the pending Golden Bill. Chair Talbot verified that RMLD's power supply is fifteen percent nuclear. Mr. Underhill affirmed. There was a discussion regarding the difference between Recs, renewables, and non-carbon.

Financial Report

a. November 2019

Ms. Markiewicz stated she is presenting the eleven months ending November 30, 2019. Unrestricted cash of \$20.7 million covers approximately three months of the RMLD's operating expenses of \$6.9 million. Accounts receivable are 99 percent current. Net plant increased by \$1.5 million as compared to November 30, 2018. Year-to-date base revenue increased by three percent year to year with a decrease in kWh sales by three percent as well. Year-to-date purchase power fuel expense exceeds purchase power fuel revenue by about \$890,000. Purchase power, capacity, and transmission revenue exceeds expenses by approximately \$440,000. Operating and maintenance expenses are under budget by approximately 12.7 percent. Ms. Markiewicz discussed the month-to-month trend in kWh sales over three years. June, July, August and September show large decreases. There is \$8.9 million in the depreciation fund. The sick leave fund totals \$2.3 million. The sick buyback negotiated language in the new union contract should lead to a decrease.

b. OPEB Trust

Ms. Markiewicz explained that at a previous meeting in September the Commission had voted on a Declaration of Trust without having reviewed the actual document. Therefore, Ms. Markiewicz stated that she is asking the Board to rescind that vote. Ms. Markiewicz stated that she has sent the Declaration of Trust to the Board via electronic mail and is now asking for the Board to accept it.

Mr. Pacino made a motion, seconded by Mr. Hennessy that the Board of Commissioners vote to rescind the vote taken by it on September 19, 2019 relative to a Declaration of Trust for OPEB purposes, on the recommendation of the General Manager.

Motion Carried: 5:0:0.

Mr. Pacino made a motion, seconded by Mr. Hennessy, that Board of Commissioners vote to adopt and execute the Declaration of Trust presented to it by the General Manager for OPEB purposes on December 9, 2019, on the recommendation of the General Manager.

Motion Carried: 5:0:0.

Engineering and Operations Report

Mr. Jaffari reviewed major construction projects and area upgrades, including the Marion Street project and SCADA meter switches. An electrical incident plan is being developed. Mr. Jaffari discussed upgrades to cables at Station 4, grid modernization, and SCADA meter switches. Great progress has been made on step-down upgrades, and reliability in those areas is improving. All maintenance programs are on target. In 2019 81 transformers were replaced. Since the

Engineering and Operations Report

program was started in 2015, 1,513 transformers have been replaced. That's approximately 37 percent and it's a moving target. Mr. Jaffari stated the pole testing program has inspected 4075, with 518 failing. A failure means the pole needs replacement. Lynnfield has 69 pending pole transfers due to step down upgrades. Mr. Jaffari stated that RMLD is doing great in terms of reliability and is well under the national and regional averages, and is one of the strongest systems in the northeast region. Outage causes were reviewed, with motor vehicle accidents up.

General Discussion

Meeting dates were discussed.

Adjournment

At 9:23 p.m., Mr. Pacino made a motion, seconded by Mr. Stempeck, that the Board go into Executive Session to consider the purchase of real estate and to discuss strategy with respect to collective bargaining and return to Regular Session for the sole purpose of adjournment.

Roll call vote: Mr. O'Rourke: Aye; Mr. Pacino: Aye; Vice Chair Stempeck: Aye; Chair Talbot: Aye.

Motion Carried: 5:0:0.

The Board returned to regular session for the sole purpose of adjournment and on the motion made by Mr. Pacino and second by Mr. Stempeck, adjourned the regular session at 10:00 pm.

Motion Carried: 5:0:0

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

Philip B. Pacino, Secretary Pro Tem
RMLD Board of Commissioners