



Town of Reading Meeting Minutes

Board - Committee - Commission - Council:

RMLD Citizens Advisory Board

Date: 2017-10-25

Time: 6:30 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:**

Mr. George Hooper, Chair (Wilmington); Mr. Jason Small, Vice Chair (North Reading); Mr. Dennis Kelley, Secretary (Wilmington); Mr. Neil Cohen (Reading); Mr. Vivek Soni (Lynnfield)

Members - Not Present:

Others Present:

Mr. Philip Pacino, Chair, Board of Commissioners; Ms. Coleen O'Brien, Ms. Joyce Mulvaney, Ms. Jane Parenteau, Ms. Kathleen Rybak, Mr. William Seldon

Minutes Respectfully Submitted By: Mr. Dennis Kelley, Secretary

Topics of Discussion:

1. Call Meeting to Order – G. Hooper, Chair

Chair Hooper called the meeting of the Citizens' Advisory Board to order at 6:30 PM and noted that the meeting was being audio recorded.

2. General Manager's Update – C. O'Brien, General Manager

Ms. O'Brien updated the CAB on various community events that RMLD has participated in or sponsored over the past few months, as well as some upcoming Community Relations events and initiatives.

Ms. O'Brien reported that four key positions have been filled: one Engineer; one Lead Technician; one Systems Analyst in IT; and the General Line Foreman have been hired.

Chair Hooper asked if the holiday LED lights would be available to the towns this year. Ms. O'Brien confirmed that they would be available, and that Ms. Mulvaney would be reaching out to each of the towns.

3. Approval of Minutes – G. Hooper Chair

Materials: Draft Minutes from the April 12, 2017, CAB meeting.

Mr. Cohen made a motion that the Citizens' Advisory Board approve the Minutes of the April 12, 2017, meeting as written, seconded by Mr. Kelley. Hearing no further discussion, **motion carried 5:0:0** (5 in favor, 0 opposed, 0 absent).

4. Power Supply Risk Management Strategy – J. Parenteau, Director of Integrated Resources Division
Materials: Powerpoint Presentation

Ms. Parenteau presented a Risk Management Strategy for the purchase of power supply agreements, which builds on the current laddering and layering strategy used by RMLD. Currently, RMLD goes out to bid annually for the open portion (approximately 25%) of the total power supply requirements. Under the proposed strategy, RMLD will build on the current strategy to further mitigate the risk and increase the ability to secure lower pricing. Rather than looking at four-year contracts, once annually, the revised strategy would look four to five years going out, at monthly increments throughout the year. Pricing in certain months hit different thresholds. When certain price thresholds are hit, we are asking for the ability to lock in (or secure) that lower pricing, as opposed to a one-time opportunity (annually). Price and time targets will be monitored to secure pricing/contracts.

Ms. O'Brien noted that this is standard refinement that most utilities are utilizing. We are trying to capture the volatility of the market. Ms. Parenteau noted that RMLD will be partnering with somebody who is in the market daily to monitor our benchmarking models.

Mr. Cohen asked about reduced legal expenses, as noted, under this revised model. Ms. Parenteau stated that we will be signing a master agreement, which will allow us to transact. The master agreement will have the same protections, but will have confirmation of the smaller quantities. That should reduce the legal costs of negotiating specific contracts for each transaction.

Chair Hooper asked if staff would provide a report to show the cost benefit of this model. Ms. Parenteau noted that staff will report back to the Boards periodically to summarize on the results of a series of transactions.

Mr. Cohen made a motion that the Citizens' Advisory Board recommend to the RMLD Board of Commissioners to accept the Risk Management Strategy as presented, and authorize the General Manager to enter in purchase power agreements that satisfy the criteria set forth in the Risk Management Strategy, seconded by Mr. Kelley. Hearing no further discussion, **motion carried 5:0:0** (5 in favor, 0 opposed, 0 absent).

5. Presentation of RMLD Financial Status – P. Pacino, Chair, RMLD Board of Commissioners
Materials: RMLD/CAB Payment to the Town of Reading

Commissioner Pacino shared the presentation on the RMLD Financial Structure that was prepared for the Sub-committee on the Payment to the Town of Reading. The numbers presented are based on the Budget that was voted by the CAB and the Commission previously. It is anticipated that "Rates" will likely decrease 1-3% each year going forward due to technology changes. The Commission is looking at other revenue streams (including solar and fiber). The above the line payments represents 2% of net assets, which is divided among the towns based on usage. The return on investment to the Town of Reading is based on the annual CPI (a formula that was originally set in 1994). The Town Meeting has asked the subcommittee to review this payment. It is the intention of the Commission that the contingency (\$1,064,620) could potentially go to the OPEB (other post-employment benefits) liability. Chair Pacino noted that the Sub-committee met on September 27, and had some preliminary discussions.

Ms. O'Brien noted that the presentation was a snapshot in time, and the current rate of return is at 8%, due to the amount of maintenance and infrastructure that needs to be addressed. However, it may not always be the recommendation to stay at 8%. When we get to the level of maintaining, it would probably be the recommendation of the General Manager to lower that return on investment. Chair Pacino noted that economics will also impact those numbers.

Chair Hooper stated that as the Wilmington Representative and a rate-payer, he would not be in favor of constantly approving an 8% ROI.

6. FY19 Budget Process – C. O'Brien, General Manager

Ms. O'Brien reported that staff has begun the FY19 budget process. The Operating and Capital Budgets will be presented to the CAB over two meetings. Budgets should be distributed to the CAB by March 31st, with CAB meetings early in April. Budgets then go to the Board for review and approval, with a July 1 effective date. Ms. O'Brien asked if CAB members had any request for the Budget process.

Mr. Kelley asked that all relevant staff be present at the budget presentations in order to fully address questions that may come up relative to the projects/budgets.

7. Next Meeting – G. Hooper, Chair

The next meeting of the CAB will be November 15th. The December meeting is scheduled for the 13th.

Mr. Cohen made a motion to adjourn the Citizens' Advisory Board meeting, seconded by Mr. Small. Hearing no further discussion, **motion carried 5:0:0** (5 in favor, 0 opposed, 0 absent).

The Citizens' Advisory Board Meeting adjourned at 7:18 PM.

As approved on January 17, 2018.

CAB MEETING PRESENTATION SLIDES:
October 25, 2017

Reading Municipal Light Department Risk Management Strategy

Objectives

- ▶ Mitigate risk
- ▶ Stabilize rates
- ▶ Optimize ability to secure lower pricing

Current Strategy

- ▶ Historically, RMLD has procured its firm energy purchases annually using a laddering and layering approach which procures power for the next four years
- ▶ Ladder and layer contracts diversify contract duration and type
- ▶ Annual RFPs are only for a portion of future requirements
- ▶ Allows RMLD to manage evolving regulatory rules and future price trends

Laddering and Layering Approach

- ▶ Currently, RMLD looks out every four years and secures pricing after receiving both CAB and Board approval.
- ▶ Administrative processes currently limit RMLD's ability to take advantage of dynamic pricing opportunities
- ▶ Requires extensive labor hours and costly legal expenses
- ▶ Provides the value of dollar cost averaging, however, does not build a "portfolio" of prices that should be at/or below the final market settle

Historical Laddering and Layering Results

# of years	Term	Supplier	Mwhs	Type	\$/Mwh
4 years	1/1/14 - 12/31/17	BP Energy	451,131	ATC	\$47.42
4 years	1/1/15 - 12/31/18	Shell Energy	463,067	ATC	\$63.09
3 years	1/1/16 - 12/31/18	Exelon	294,233	ATC	\$47.68
1 year	1/1/19 - 12/31/19	NextEra	110,262	ATC	\$45.95
2 year	1/1/17 - 12/31/18	EDF Trading	98,752	ATC	\$37.57
2 year	1/1/19 - 12/31/20	Exelon	171,547	ATC	\$39.31

ATC = Around the Clock

Improved Risk Management Strategy

- ▶ A better approach to procuring energy would be to buy smaller quantities over time.
 - ▶ This would allow RMLD to respond to market price changes - buying more when prices are low and less when prices are high.
 - ▶ Similar to “dollar cost averaging” in building a stock portfolio.
- ▶ This approach comes under best utilities standards practice.

Improved Risk Management Strategy

► Two “buying triggers”

1. Price triggers

- When price is below long-term average (4 years)
 - Four years represents the period of time over which prices have cycled between low and high extremes.
- Build “portfolio” of prices that should be at/or below the final market settle.

2. Time triggers

- As the purchase date approaches
- Final protection against spot volatility
- Smooth out price variations - “dollar cost averaging”

Price Triggers

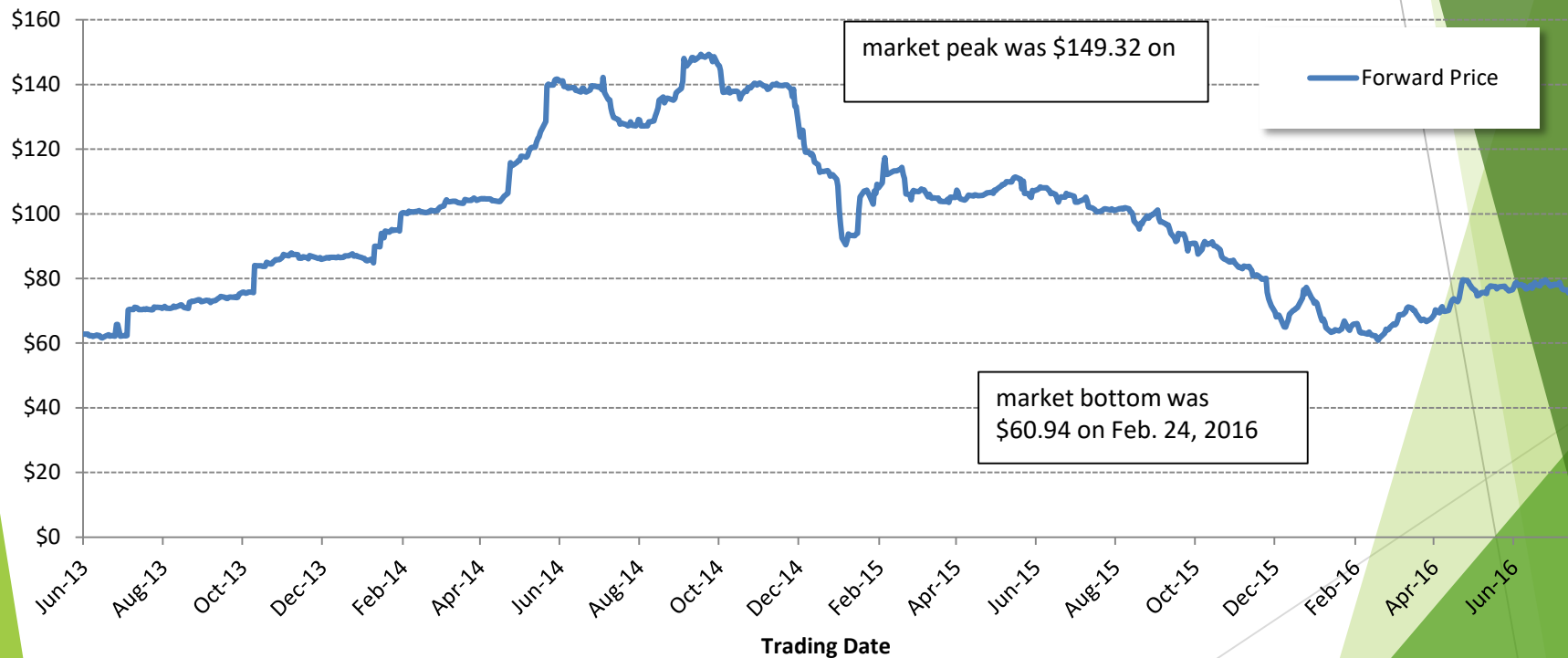
Target Price Percentile	Percent of Target Volume To Purchase				
	Current Year	Year 2	Year 3	Year 4	Year 5
50 th %	60%	40%	20%	0%	0%
40 th %	70%	50%	30%	10%	0%
30 th %	80%	60%	40%	20%	0%
20 th %	90%	70%	50%	30%	10%
10 th %	100%	80%	60%	40%	20%

Time Triggers

- ▶ Recommended time triggers
 - ▶ 12 months prior lock in 25%
 - ▶ 9 months prior lock in 50%
 - ▶ 6 months prior lock in 75%
 - ▶ 3 months prior lock in 100%
- ▶ These represent a percentage of the TARGET position, not the entire open position, i.e., 90% of the on-peak load during January and February.

Example of Market Price Fluctuation

January 2017 On-Peak Energy Price



Why Have a Risk Management Strategy?

- ▶ A consistently applied Risk Management Strategy will remove speculative judgement from decisions to purchase energy.
- ▶ A Risk Management Strategy will permit RMLD to take advantage of price opportunities consistently over the next several years and beyond.
- ▶ This strategy will allow RMLD to secure monthly quantities that are below the four year average versus locking in annual quantities.
- ▶ A strategy of utilizing time triggers will smooth out variations in the market over time.

Motion

Move that the Citizens' Advisory Board recommend to the RMLD Board of Commissioners to accept the Risk Management Strategy as presented, and authorize the General Manager to enter in purchase power agreements that satisfy the criteria set forth in the Risk Management Strategy. As a matter of protocol, the Department will provide a report on transactions relative to this strategy.

Sample Target Position

- ▶ January, 2019 Forecasted Load:
 - ▶ 100 Mws On-Peak
- ▶ 50 Mws of Existing Contracts
- ▶ Spot Market Position: 10% open
 - ▶ i.e. 10 Mws
- ▶ Target Position = Forecast - Existing - Spot Market
 - ▶ $100 \text{ Mws} - 50 \text{ Mws} - 10 \text{ Mws} = 40 \text{ Mws}$

Sample Tranche Recommendation

Month	Forward Price	Percentile	Time Trigger	Price Trigger	Target Volume	Amount to Purchase
Jan-18	\$79.27	37%	100%	70%		

- The price of forward energy for January 2018 (as of October 23rd) was \$79.27
- That price was lower than the closing price on 63% of the trading days in the last four years, putting the price in the 37th percentile
- A price below the 40th percentile equates to a 70% price trigger based on the table
- The time trigger which is less than 3 months in the future is 100%
- The greater of the time and price triggers is 100%