

**MINUTES
TOWN OF BELMONT
MUNICIPAL LIGHT ADVISORY BOARD
BELMONT LIGHT CONFERENCE ROOM, 40 PRINCE STREET
Wednesday, April 2, 2014
7:15 P.M.**

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I. CALL TO ORDER:

A regular meeting of the Board was called to order at 7:19 PM by BMLAB Chair Brown.

Present: BMLAB Chair Brown, Vice Chair Forrester; BMLAB Members Klionsky and McClain; Light Board Liaison Jones; Belmont Light General Manager Palmer, Belmont Light Staff Keane and Klubnichkina, Belmont Light Legal Counsel Foskett; Belmont Light Consultants Myette and Seavey.

Absent: BMLAB Members DiOrio and McVay.

II. APPROVAL OF MINUTES DATED 2/24/14

The Board moved: To approve the minutes dated 2/24/14.

The motion passed unanimously (4-0).

I. DISCUSSION OF NATURAL GAS PRICES AND IMPACTS ON BELMONT LIGHT

Palmer introduced Gil Myette, energy portfolio manager with Energy New England, who was in attendance to give an update on important changes happening in regional natural gas markets. Throughout the first quarter of 2014, natural gas prices hit record-high levels because of pipeline constraints; such extreme prices will have impacts for Belmont Light and its customers. Myette began his presentation by asking attendees to refer to a map of New England's natural gas pipelines. He pointed out that with the way the nation's pipeline infrastructure is designed, New England is a less-than ideal position for accessing the country's natural gas supplies. Although there is plenty of natural gas available throughout the country, not much of it is delivered past New York City or the Connecticut border. Adding more difficulties to this situation, Myette explained, is that there is very little to no market to support the delivery of liquefied natural gas ("LNG") to the Northeast. Brown asked if other municipal plants had interest in getting involved in secondary capacity markets to escape what is happening in mainstream markets. Myette answered that secondary markets are volatile and not financially worthwhile, so his clients tend not to participate in them.

Against this context, New England energy markets are experiencing much more price volatility than markets in the U.S., even those as close as New York City. Myette described several recent instances when New England's natural gas prices rose to unexpectedly high levels. For example, he recalled that in March, while natural gas was priced between \$7 and \$8 MMBtu in New England, the same batch of natural gas was sold for \$2 MMBtu elsewhere in the country. The volatility that occurred in the markets in January and February 2014 dwarfed market fluctuations that happened in any previous years that he could remember. Myette said that no one saw these dramatic price swings coming—they have been beyond what anyone predicted.

Myette expects that this situation will not be remedied soon. Some pipeline expansion plans are in discussion, but there will likely be only incremental gains until 2016 or 2017. Unfortunately, this means New England will face at least two more winters with extreme natural gas pricing. He also believes transmission charges will continue increasing in coming years.

Myette went on to say that despite all of this negative information about the energy markets, Belmont Light does have some options for combating the long-term volatility of the market and recouping any lost revenue it endured in 2014 thus far. Potential alternatives include implementing a fixed-basis component, swapping to oil-based power in the winter, or shifting to a load-follow contract. Additionally, while next year's prices are expected to be high, looking at prices on an annual basis is the best way to view things. Working with a 3-year projection, prices could be shown to even out over time. Myette further advised that though there is no escaping the short-term pressure of the market, but being a little more aggressive in hedging could leave Belmont Light's portfolio less exposed to the volatility of the spot market. Adopting any of these alternatives comes down to a matter of preference for Belmont Light.

Following Myette's presentation, Forrester and Palmer discussed how during this past winter, there were times this past winter when natural gas was just not available for the area's electric generation. Jones also suggested that the market could continue to be unpredictable because of changes in how the U.S. manages its LNG industry in New York's policies on hydraulic fracturing.

McClain next asked how long Belmont Light is committed to its current contracts and Palmer replied that the current portfolio at 85% hedged is good through 2014; the department has the option to change things for 2015. Brown suggested BMLAB and Belmont Light discuss the recommended options at a May meeting.

III. REVIEW OF RATES AND ENERGY CHARGES AND CONSIDERATIONS OF REVISIONS

Palmer introduced Mayhew Seavey who would provide an explanation of a *purchase power and transmission adjustment* (“PPTA”) tool as it relates to Belmont Light. Brown posited that given the dramatic changes in regional energy markets, Belmont Light must change the way it is billing so that it can recover recent unanticipated costs. Implementing this tool might be a way to do so.

Seavey gave background information on the restructuring of the U.S. electric industry. By the 1980s, he explained, most municipal electric utilities had incorporated some sort of PPTA into their rate schedules. PPTAs allow utilities to adjust revenues to reach a particular target level. Belmont Light has had PPTAs in place for a long time; the most recent one being filed in 2008. Generally, though, Belmont Light utilized the PPTA to credit customers. During periods when purchased power costs are stable, it is not necessary for Belmont Light to activate the PPTA because power costs come in close to budget. This is the first winter that necessitates the use of the tool to charge customers. Seavey added that a helpful attribute of Belmont Light’s PPTA is that it is transparent and auditable, allowing Belmont Light’s accounting staff to efficiently track distribution and purchase power revenues and expenses.

Palmer stated that since costs are unstable as Myette described, Belmont Light will be implementing the PPTA tool in April 2014. As far as Palmer recalls, this will mark the first time customers will see adjusted charges on their bills. Typically in the past, adjustments to customer bills have been in the form of credits. Brown suggested that since the tool can be applied many different ways, its implementation raises a policy question: does the Board want to smooth over the market’s price signals by applying the adjustments over a long time-frame or should customers be presented with actual electric prices so they have the option of modifying their electricity usage? Klionsky and Seavey discussed that using the PPTA would not require changing Belmont Light’s current tariff.

Palmer stated that over the next couple weeks, Belmont Light staff and Seavey will conduct a thorough analysis on how to best utilize the PPTA. Klubnichkina offered that Belmont Light’s staff will review the department’s expenses and budget, and examine its rate structure. Belmont Light staff will then present its research on the PPTA to the Board.

The group decided to hold a BMLAB meeting on financials on April 23rd and two meetings in mid-May to discuss rates. During the second May meeting, Belmont Light will present its long-term PPTA plans to the Light Board. Jones noted that presenting to the Light Board is critical, because changes in Belmont Light’s billing rates will impact town and school budgets, which are passed in June.

IV. EXECUTIVE SESSION

The Board moved: into Executive Session at 9:04 PM. The Board would only re-enter open session to adjourn.

Executive Session to:

- a. discuss trade secrets or confidential, competitively-sensitive or other propriety information provided in the course of activities conducted by a governmental body as an energy supplier under a license granted by the department of public utilities pursuant to section 1F of chapter 164; and
- b. to conduct contract negotiations with nonunion personnel.

Respectfully submitted by 

Gretchen McClain, Advisory Board Secretary