MINUTES
TOWN OF BELMONT
MUNICIPAL LIGHT BOARD
IN JOINT WITH THE LIGHT BOARD ADVISORY COMMITTEE
TOWN HALL
SELECTMEN'S MEETING ROOM
Wednesday, September 26, 2018
7:00 P.M.

I. CALL TO ORDER

Chair Caputo called a regular meeting of the Municipal Light Board (MLB) to order at 7:00 P.M.

Chair Klionsky called a regular meeting of the Light Board Advisory Committee (LBAC) to order at 7:02 P.M.

Present:

MLB – Chair Tom Caputo, Vice Chair Mark Paolillo, Member Adam Dash

LBAC – Chair Steve Klionsky, Secretary David Beavers, Members Roy Epstein, Bob Forrester, and Ralph Jones

Belmont Light (BMLD) – General Manager Chris Roy, Staff Maria Makar-Limanov, Becca Keane, and Aidan Leary, Consultant Mark Beauchamp

Absent:

LBAC – Vice Chair Mark McVay, Member Travis Franck

II. COST OF SERVICE STUDY PRESENTATION

Roy introduced Mark Beauchamp of Utility Financial Services (UFS), which BMLD had engaged to perform the cost of service study (COSS). He said this was an important task because the utility sector is facing an unprecedented amount of change in the way it interacts with energy as it evolves with societal advancements. As a result, Roy said that the way that rate design and COSSs have been done is changing as well.

Roy said the first step in rate design was to set metrics to use as a baseline, which would allow BMLD to understand what its financial targets are for reliability goals, climate action goals, and financial goals.

Beauchamp introduced his firm, was established in 2001 and has performed 600-700 studies for utilities around the country. He said that the study identified revenue requirements for BMLD, including: how much money must the utility recover in the rates it is charging; how much each rate class is costing the utility; and how much the rate theoretically should be changed. He said the COSS is important but is only one consideration into designing rates. The other considerations are social concerns, environmental concerns, and community objectives. He said the objective of a COSS are fairness to customers and, more importantly, reliability financial stability for the utility.

Klionsky stated that he had experience with COSSs as a lawyer at investor owned utilities (IOUs) and asked Beauchamp if there was a different approach to be taken here than usual. Beauchamp said that the difference is that the IOUs want to make profits for shareholders, whereas BMLD just wants to pay its bills.

Beauchamp said he had three objectives for the meeting: to determine the rate tracks, or how to adjust the rates going forward; to determine how much leeway the MLB and LBAC would like to give for a rate increase; and to determine whether to increase the customer charge and by what amount. He turned to a slide deck (see below).

Caputo confirmed that the second phase of the UFS's work under the original proposal will be the rate design.

Epstein asked whether, besides distributional changes between rate classes, Beauchamp was anticipating a significant change in rates up or down. He said that he also noticed that there was a proposal for significant increases for municipal accounts. Beauchamp said that he was there to get guidance from MLB and LBAC on how to make changes.

Beauchamp said the COSS is based on assumptions, so that it is hard to do long term projections of up to five years but that projections out two to three years are pretty close. He said that Belmont Light's annual growth would be fairly flat for the next few years. Paolillo asked whether the assumptions were based on trends. Beauchamp said that they were consistent with the trends. Residential electric rates have been declining driven by residential energy efficiency measures. Since Belmont Light is a power supply aggregator, not a power generator, if the electricity use is reduced, the power supply costs go away. He said that they were after a win-win situation here.

Klionsky said that the growth numbers presented were consistent with ISO-NE but that some consultants have said that with electric vehicles, strategic electrification, and other factors, electric consumption may increase. Beauchamp said that utilities have not done enough to incentivize electric vehicles and that fixed costs have been put in variable charges for too long.

Forrester asked if the assumptions included the cost of Project C. Roy said that it did and that the costs had been known for quite some time.

Beauchamp turned to his projection without rate changes, which had three targets. First, there is a recommended minimum cash to have on hand, which was around $8 million for Belmont Light. Second, a utility should also be earning $1 million per year in operating income. Beauchamp said that Belmont Light would be falling short of that amount without rate changes. Third, a utility should consider the debt coverage ratio, which is important for the utility to stay above when it comes to bonding. Beauchamp said that Belmont Light issued general obligation bonds, which is highly unusual for electric utilities. The more common method for an electric utility is to issue revenue bonds. Utilities must stay above a 1.2% coverage and the target is a minimum of 1.4% because a safety factor of .2% is added. He said that the reason it is happening is 85% of the equity of Belmont Light's system, Belmont Light owes debt on, which told him that Belmont Light had issued debt in times when it shouldn't have. Paolillo said that debt to build the new substation as general obligation bonds under the Town because it had a AAA bond rating and he didn't know how that could have been done differently. Jones said that the Town could have issued revenue bonds, but they are more expensive. Beauchamp said that the Town could have financed a certain amount of the project out of cash. As a result, Belmont Light's debt to equity ratio is .85, whereas the average for a utility system is .3.

Paolillo asked why the recommended minimum cash was $8 million but Belmont Light's projected balances were double digits and why the cash-on-hand recommendation was so high in the first place.

Caputo asked Beauchamp if he had a recommendation on what to do with the cash on hand. Beauchamp answered that Belmont Light is highly stable but has high debt to equity ratio. He said capital improvements need to be funded by reserves, which will decrease the debt to equity ratio over time. He said that some of the substation project should have been funded from reserves. Roy stated that included in that amount of cash were remaining bonds funds that were restrictive for capital improvements. Belmont Light is legally required to hold cash for Project C. Dash stated that over the past few years, Belmont Light's finances have been distorted by the substation project and this might be what is happening. He said that the cash on hand will be spent on the third of three projects over the next ten years.

Beauchamp discussed his proposed rate changes. He proposed a 1% per year increase over five years, which he said would fix the debt coverage ratio. He said that small, periodic adjustments tend to be more favorable to customers and allow the utility to avoid the problem of not covering its costs. He said that would be an increase of a modest $1.10 for the average residential customer. Beauchamp said his first question for the Board and LBAC was whether they were comfortable with this rate track change.

Dash said one of the concerns that led to the COSS was the feeling that Belmont Light's rates are high and the question was why. He said that rate increases were not really the direction they were hoping to go. Beauchamp said there are a few things that lead to Belmont Light's high rates. The primary thing is load factor. Beauchamp explained that Belmont is one of the most residentially-driven utilities he had worked for and residential customers tend to peak around 7:00 P.M. He said when you have other customers, like commercial and industrial ones, they fill in the other time periods with usage. The difference between the peak and their average usage (the load factor) is fairly close. Beauchamp said that Belmont's load factor is 42% annual, which is the worst he's ever seen and is driving up costs. Belmont Light must buy the capacity for the peak but the capacity just sits there for the one time per year. Beauchamp said Belmont's peak was 33 megawatts (MW) over the course of the year and the average over the year was 42% of that. Among the other utilities he had done work for, the next lowest he could find was 53%. To address this, Beauchamp said Belmont Light can introduce time-of-use pricing to incentivize customers to reduce the peak.

The group discussed the debt coverage ratio. Beauchamp confirmed that 1.4% is a municipal industry standard.

Beauchamp discussed the reasons for having minimum cash. A utility must have cash on hand to pay for its power supply, prepare for any catastrophic event that may occur, protect against the loss of a major customer, cover capital costs, and pay its debt service. Beauchamp went over the determinants for getting to the minimum cash amount.

Discussion ensued on the mechanisms of having higher fixed charges or variable charges. Dash said it was counterintuitive to the Town's climate goals to have higher fixed charges. Beauchamp said that fairness is a factor, including the low-income assistance rate.

Klionsky asked what a good, stable rate structure would be. Beauchamp answered that it would be to set a customer charge, have time-of-use rates, and set a residential demand charge. He said that the utility has to be able to cover capital costs for transformers and other equipment when a customer increases their usage.

Dash said that his goal was to get rates down and get more green. He said it sounded like Belmont could spread the load out through conservation, then cover that instability with a raise in the fixed rate, but the mix of the two would meet the Town's climate goals and get rates down. Beauchamp said that energy efficiency tends to improve residential load factor. He said this was contrary to rooftop solar customers, which gives a negative impact to the load factor. The group continued to discuss the demand charge.

Beauchamp went over rate track changes. Dash asked if there was a way to change the rates for commercial and residential customers separately. Beauchamp said that that was a determination that he would ask the Board and LBAC to make – how much leeway to give in the difference between the two.

The group discussed whether there was need to break the rate classes up as finely as UFS had. Beauchamp said that the granularity helps to determine where to put the adjustments. Klionsky stated that the parameters can be changed.
Paolillo asked, when costs are allocated, if it is objective or subjective. Beauchamp answered that very little of it is subjective and that it is getting better with the AMI meter system, but there is always a certain amount of subjectivity.

Paolillo asked if the COSS included payroll costs. Beauchamp said that payroll is broken out by category to allocate the costs based on which rate class is using what service.

Dash asked if they could put low usage customers in a separate rate class. Beauchamp said that the reactive approach is to create a new rate class, but the proactive approach is to adjust rate class based on costs.

Discussion moved to the fixed customer charges. Beauchamp proposed that the residential rate "A" customer charge be increased from $10.60 per month to $22.25 per month. Klionsky said that he would be surprised if there was any municipal light plant with a customer charge that high. Roy asked if the same behavioral changes that variable rate increases would bring could be accomplished with rebates. Dash said these would have to be simpler and more meaningful.

The group discussed that there will be a large amount of public input, including public forum, going forward.

From the audience, Phil Thayer, Town Meeting Member from Precinct 6, applauded the work done on the COSS. He asked Beauchamp to clarify his statement regarding rooftop solar. Thayer asked if solar would be a component of the study going forward or whether the Board could request that it be going forward. Beauchamp said that it could be studied, along with electric vehicles and residential storage.

Beauchamp asked: if there would be extreme opposition to targeting a 1% rate adjustment per year over three years; if a rate adjustment of up to 3% would be okay for certain classes; and whether a $1 or $2 per year increase in the customer charge would be okay. Dash reiterated that there would be public forums before any decisions were made.

It was agreed that Beauchamp would use the information gathered at the present meeting to inform the COSS going forward.

The Board adjourned at 9:07 P.M.

LBAC adjourned at 9:07 P.M.