

**BOARD OF COMMISSIONERS MEETING
SELECTBOARD MEETING ROOM, TOWN HALL
OCTOBER 26, 2017 AT 6:30 P.M.**

Present for the Board: Chair Gregory Dubreuil, Vice Chair Vernon Blodgett, Anne Awad, John Hine, Kurt Schenker

Present for staff: General Manager Sean Fitzgerald, Financial Manager Michael Conchieri and Administrative Assistant Kim Mendoza

Call to Order:

The meeting was called to order at 6:31 PM.

Public Comment

There were no comments.

Minutes Approval:

9/28/17 Open Session

On a motion made by Mr. Blodgett and seconded by Ms. Awad, it was unanimously

VOTED: To approve the meeting minutes of September 28, 2017.

Manager's Report:

Outages:

There was one minor electrical outage in the past month. It was from a broken branch on a transformer on Lyman Street. The outage affected 11 customers for 36 minutes.

Thank You Letter:

We received a thank you letter from the South Hadley Schools. Principal Hank Skala thanked SHELD for sponsoring the first Safety Program of the new school year.

Financial Report:

Mr. Conchieri reviewed the Interim Financial Statement for July 2017. 2017 YTD sales were \$7,566,000, which was a \$485,000 decrease over 2016. The cost of power YTD was almost \$5.3 million in 2017, dropping \$1,042,000 from 2016. Looking at the numbers from net revenue over net cost basis, 2017 was \$2,193,000 compared to \$1,636,000 in 2016, which puts us \$557,000 to the good.

Kilowatt hours sold in 2017 were 64,351,000 compared to 63,471,000 sold in 2016, or an 880,000 increase. Kilowatt hours purchased in 2017 were 65,768,000 compared to 67,781,000 in 2016, about 2 million less than last year.

For all other operating expenses, labor costs were \$780,000 YTD compared to \$717,000 last year, a \$63,000 increase. Other supplies, expenses and benefits total \$1.76 million in 2017 compared to \$1.53 million in 2016, an increase of \$228,000.

Looking at the budget-to-actual figures, sales budgeted were \$7,787,000 with an actual of \$7,566,000, a difference of \$221,000. Cost of power budgeted was \$5,599,000 with an actual of \$5,373,000, a difference of \$226,000. On a net basis we were within \$5,000 of our budget. We were 826,000 short of budget for kilowatt hours sold and for purchases we were 4,262,000 short of the budget. Labor costs were almost equal to what was budgeted and all other operating expenses were \$208,000 over budget.

Mr. Dubreuil commented that the only line item, on an actual to budget basis, that was significantly over budget was pensions and that we have no control over those increases. Mr. Conchieri explained pensions have been consistently over budget every year.

Ms. Awad asked if Mr. Conchieri had a prediction as to where we would end the fiscal year. Mr. Conchieri stated he thought we would show a small loss. September was a very good month with the lowest power costs in twenty years.

Mr. Hine asked if there were any trends over which Mr. Conchieri was concerned. Mr. Conchieri said his only concern is the upcoming rate restructure. There has not been a rate increase in twenty years, but expenses have risen. For a very long period we kept expenses lower, by using technology and making efficiencies, but there isn't much more we can cut at this point.

Strategic Planning Vendor Review:

Mr. Fitzgerald began the discussion by stating that he had contacted three vendors who have utility experience in strategic planning. He attempted to contact a fourth, who has fiber optic experience, but has not heard back from them. In summary, he spoke to Curtis Strategy, a consulting firm in Massachusetts, who has provided strategic planning and consultation services across many sectors and for nonprofits. They recently wrote the strategic plan for the Northeast Public Power Association (NEPPA). He also spoke to Hometown Connections, an affiliate of American Public Power Association (APPA), who has considerable experience in the utility public power strategic planning process. Thirdly he spoke to Aether Advisors, a management consulting firm providing strategy and risk management services in the energy sector. They recently wrote the strategic plan for American Public Power Association (APPA). All three have worked with public utilities and have similar approaches to the process. The cost will depend on the engagement and number of stakeholders we would want to be involved and the time the vendors would spend on the plan. The price increases as the number of stakeholders increases. Mr. Fitzgerald asked the Board what they value most; to have someone who will spend more time on engagement or someone, with more utility experience, who may give us less engagement. The two vendors who are not local have the most utility experience.

Mr. Dubreuil answered by saying that we should chose the one who would be of most value, not only to the Board, but also to Mr. Fitzgerald. The one who would be most beneficial to everyone.

Mr. Fitzgerald mentioned that one vendor told him that we would not be hiring him for his expertise in meters or fiber, but for his expertise in helping us make decisions on what would be the most important considerations for the company.

Mr. Fitzgerald said he would feel comfortable with either Curtis or Hometown. At this point he is leaning towards Curtis, because they are local, and it seems they would spend more time here than the others. He spoke with each vendor at length and they all have excellent experience.

Ms. Awad would like to have someone who would help us gather the information on our broad goals, like fiber, and could put us in contact with an expert for help. Mr. Fitzgerald said that one vendor did say that was part of their process. They would help us by doing some of the research and investigation, on our behalf. Ms. Awad also asked if we would need to go out to bid for a vendor. Mr. Conchieri said strategic planning is classified as professional services; therefore, we do not need to go out to bid. We just need to get three quotes.

Mr. Hine stated that, from the summary, it's hard to compare the services of the three vendors. He would like to see more detail on how much time they would each spend here and over how long of a period they will be on site. He said it's important to get the right partner and not rush to pick the vendor. Mr. Hine also asked if any of the three vendors had municipal experience. If they have dealt with municipals they would understand our challenges. They should be able to give us a sense of the scope of what would be appropriate for SHELD.

Mr. Fitzgerald said Hometown Connections and Aether Advisors have municipal experience. Curtis usually works with smaller organizations and non-profits. He said he would contact the three again and ask for a more specific scope and time commitment from each one. He does have more detailed information that he can forward to the Board. All three say we can have the full menu, which is more expensive, or they can dial things back to something smaller. The price and time will depend on the amount of stakeholder engagement.

Mr. Dubreuil stated that since this falls under professional services, we need a more detailed proposal from each of them. It's not like putting out a RFP where we ask for specific information from specs for a specific end product. We would want the vendor to provide us with information on what they think we need to include in our plan.

Ms. Awad stated that it would be helpful to have an outside expert to guide us through the process, but the success depends on the input from the engagement of stakeholders like the staff, the ratepayers and the Board. We could do some of the process ourselves, gathering some of this information on our own, and not have to purchase everything from the vendor. Mr. Fitzgerald said it is possible for us to do some of the work to get things started and cut costs.

Mr. Hine stated he is interested in looking at things that could possibly happen in the changing energy world in the future. We need to look at decisions we may need to make and what we may need to change going forward. He also said he would like to see the proposals Mr. Fitzgerald has now. Mr. Fitzgerald will get more specific details from the vendors for the Board to review.

Power Supply Generation - Project 2015A:

Mr. Fitzgerald displayed a series of slides highlighting a MMWEC project to build a 50-mega-watt, gas-fired, peaking generation plant in Peabody, MA. This is a long-term investment which would offer SHELD an opportunity to provide a long-term hedge against future fluctuating capacity market prices. All utilities, including SHELD, are required to pay for wholesale capacity market charges which ensure generation is there to produce more electricity, if and when it may be needed. This specific unit is a gas and oil dual-fuel capable peaking generator which would mostly run only when the wholesale demand or cost of power is high. The remainder of the time the unit sits there waiting to provide power and collecting wholesale capacity payments for being capable to run when needed. SHELD has a capacity open position exposing us to future capacity cost volatility; Project 2015A may provide capacity price stability for a portion of our capacity portfolio. Capacity has become one of SHELD's largest wholesale market costs. If the wholesale energy and capacity market became volatile, this project could help us but, if capacity market prices decrease, then it could be a more expensive solution for capacity coverage. Last year SHELD's capacity charges were \$5.7 million, which was more than the cost of our energy. This project may reduce our capacity charges if capacity costs were to increase. Capacity rates go up or down per a Forward Capacity Auction held in February. The auction sets pricing for the next five years. Currently prices are trending down. With an acquisition of 6MW's of Project 2015A, SHELD could reduce our open position from 68% to 54%, covering an additional 14% of capacity. MMWEC has presented three varying proformas which present different market outlooks; if the volatile case happens the unit would likely run more and provide additional energy market revenues. In the base case and millennial shift cases, the unit will run less due to more stable generation and market conditions; however, all three present substitute capacity prices if achieved, and make the investment in 2015A worthwhile. Other local utilities are also committed in this project and are using it as a hedge for their future capacity costs. Capacity is becoming a larger expense consideration for everyone.

Mr. Dubreuil stated that 80% of the cost of our energy consumption is locked long-term with nuclear power. This has enabled us to keep rates low, but we are incredibly exposed in transmission and capacity. This project would be a gamble, but it would give us stability, relative to the ratepayers, for several years. He also asked if this is the same asset as Stonybrook where MMWEC gets paid daily for it to sit there and be ready to run, if and when it's needed. Mr. Fitzgerald said it is similar, just on a smaller scale at only 50 MW's.

Mr. Fitzgerald said he could have MMWEC come and answer questions for the Board. He also said we still have some time to decide and that he would find out the deadline date. The Board agreed they would like to meet with MMWEC for more information on this project.

Power Supply Generation - Berkshire Wind:

Mr. Fitzgerald displayed a series of slides highlighting the Berkshire Wind Expansion project, a renewable generation asset. MMWEC also proposed this project which consists of two 2.3 mega-watt wind turbines located on Brodie Mountain. The Berkshire Wind site is one of the best inland wind resources in Massachusetts. We would have to pay a prorated share to get into the project. Wind typically runs more at night and during the winter when wind is more abundant. One of the considerations for SHELD is that our generation ownership of current nuclear assets, and decrease of load over the past several years, makes us often energy production long during certain night time hours. We should be sensitive to our investment in generation to ensure it meets our needs in the most economical way.

Solar may be a better fit for us, but this is a unique renewable opportunity for Municipals. Some of the current wind turbines are owned by other Municipal Light Departments.

It would be a \$12 million to \$13 million investment over the life of the asset. There could also be significant maintenance costs at the end of twenty years, like blade replacements, which could be unforeseen.

One of the slides shown highlighted the MLPs Power Portfolios relative to Renewable Portfolio Standards (RPS). It showed all the municipals and their renewable portfolios against the 2017 Mass Class 1 Requirements and the 2020 Mass Class 1 Requirements anticipated targets. If South Hadley doesn't participate in this project, we will have no Class I renewables as defined in the RPS Standards in our portfolio. Nuclear is not currently classified as a Class 1 renewable energy in the RPS standard however there is an effort through Municipal Electrical Association of Massachusetts to include Nuclear in the Clean Energy Standard (CES) targets. This is a dynamic and complicated issue since there are many proposed bills being circulated at the legislative level; however, MEAM is working to provide a proactive solution for Municipals who can show commitment to non-emitting CO2 generation ownership.

After the slide show, Mr. Fitzgerald said MMWEC needs to know if we are interested. If we are not, they will move on to someone else.

Mr. Dubreuil talked about the RPS being one of the Board's challenges. If the Renewable Portfolio Standard goes through, and nuclear is not classified as renewable, then we will have no renewables in our portfolio. We will be forced into purchasing energy on the open market and that will drive prices upward. Our demands currently fluctuate up and down. Our nuclear supply is more of a straight line. Our demands are higher in winter and summer and lower in the spring and fall so wherever the difference is, between the nuclear supply and the requirement, we are either buying at a higher price or selling back into the market at a lower price in the shoulder seasons. We should identify what would be the best renewable investment for us before we are required to make it. Once we are forced to do it, it will cost us more.

Mr. Hine asked what other renewables would be a better fit for \$12-13 million, if wind is not a good fit for South Hadley. It seems solar would be a better fit than wind.

Ms. Awad said the graph, showing our lack of renewables, is embarrassing. We need to look more like our sister municipalities who are doing innovative things to move towards owning renewables.

Mr. Fitzgerald said that we could look into a solar project. The current issue with solar is that the SREC II credits expire in March of 2018 and the replacement program called SMART will exclude municipalities. The solar array would need to be up and functional by March to receive SREC II credits. If we spend half of the \$13 million on solar, we would achieve significant renewable ownership to help us with our future RPS objectives. Land is the key to a solar project. We could either build a solar project ourselves, possibly at the Town Landfill, or partner with someone on a project which could be built elsewhere. Strategic Planning should be able to help with this decision. He also stated that he had a broker investigating solar already. He said he is confident, that within the five years, we should be able to begin meeting the State renewable standards.

The Board agreed that the wind project would not be a good fit for South Hadley at this time.

SHELD Renewables Rebate Criteria:

Mr. Fitzgerald stated that he needed to table this topic until after next year's budget is completed. This topic will be revisited at the December 7th meeting.

Manager's Review:

Mr. Fitzgerald stated he worked with the Chair and Vice-Chair on a format. They decided to use the previous Manager Review format, which was sent to the Board. Mr. Fitzgerald also provided the Board with a self-evaluation, listing things that have been accomplished since February and projects that are in progress. This gives the Board an idea of all the things he has been working on daily.

The Board and Mr. Fitzgerald agreed that the Board would fill out their individual performance evaluations and forward them to Mr. Dubreuil, before Thanksgiving. Mr. Dubreuil will average all the scores and compile the comments into one document. It will be presented at the December 7th meeting. Mr. Blodgett commented that he tested the format and it did not take him long to fill it all out.

Ms. Awad asked if any part of the review process should be in Executive Session. Mr. Dubreuil did not think the Manager review was one of the ten reasons for an Executive Session meeting. Mr. Hine said he would look for some guidance on the process and review the open meeting laws.

Warrant Authorization:

A revised version of the Warrant Authorization was sent to all the Board members. They reviewed it.

On a motion made by Mr. Hine and seconded by Mr. Schenker, it was unanimously

VOTED: To approve the Warrant Approval Disbursement Authorization policy.



New Business

Mutual Aid to the Virgin Islands:

Mr. Fitzgerald told the Board that NEPPA has reached out again for mutual aid. This time it's to the U.S. Virgin Islands, specifically St. Thomas. They are requesting digger trucks and crews for a four-week commitment. We have two Linemen who volunteered, Jonathan Szymonik and Evan Serella. The truck will be driven to Florida or Philadelphia and barged to St. Thomas and the crew will be flown there. Once again, we will be compensated by FEMA. Everything is in place for their departure. Mr. Fitzgerald stated that helping NEPPA is the right thing to do.

Mr. Dubreuil stated that he thinks it's great that we have the ability to help out and that we have volunteers who were willing to go.

Adjourn:

On a motion by Mr. Hine and seconded by Ms. Awad, it was unanimously
VOTED: to adjourn.

The Open Session ended at 7:54 PM.


Anne Awad, Clerk

Approved: December 7, 2017

EXHIBIT A**List of Documents reviewed at the October 26, 2017 Municipal Light Board Meeting**

1. Draft Open Session Minutes of the MLB September 28, 2017
2. Outages 10/24/2017 YTD
3. Plains School Thank You Letter
4. July 2017 Interim Financial Statement
5. MMWEC Special Project 2015A PowerPoint
6. Berkshire Wind Expansion PowerPoint