

**SOUTH HADLEY ELECTRIC LIGHT DEPARTMENT
BOARD OF COMMISSIONERS MEETING
SELECTBOARD MEETING ROOM, TOWN HALL
JUNE 28, 2018 AT 6:00 P.M.**

Present for the Board: Chair Greg Dubreuil, Vernon Blodgett, Kurt Schenker
Absent: John Hine, Peter McAvoy (arrived 6:03)
Staff: General Manager Sean Fitzgerald, Sr. Engineer Mark Gilmore

The meeting convened at 6:00 PM.

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

VOTED: to adjourn to Executive Session, pursuant to M.G.L. c. 164, § 47D, for purposes of discussing trade secrets, confidential, competitively sensitive or other propriety information that the plant board has determined the disclosure of which will adversely affect its ability to conduct business in relation to other entities making, selling or distributing power and energy pursuant to M.G.L. c. 164, et. seq. and pursuant to M.G.L. c. 30A, §21 (a)(6), to discuss the purchase, exchange, lease or value of real property that the Chair declares that an open meeting may have a detrimental effect on the negotiating position of Board. The Board will return to Open Session following the adjournment of the Executive Session.

The motion was approved by a roll call vote; Dubreuil-aye, Blodgett-aye, Schenker-aye.

The Open Session reconvened at 6:30 P.M., with Financial Manager Michael Conchieri and Administrative Assistant Kim Mendoza

Public Comment

There were no public comments.

Minutes Approval:

5/24/18 Open Session

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

VOTED: To approve the minutes of the May 24, 2018 open session meeting.

Manager's Report:

Outages:

There were three outages in the past month. Two were due to animal contact and one was due to lightning. The three outages were of short duration with minimal impact to customers.

Thank You Letter:

SHELD received a thank you letter from Principal Skala at the Plains School for the safety program conducted in May at the school. SHELD is committed to safety and sponsors these programs. The children enjoy the presentations and maybe someday a life will be saved from the lessons they were taught.

Financials:

Mr. Conchieri gave a brief overview of the December 2017 Year-End Financials

Kilowatt hour sales in 2017 were down by 2% from 2016, or about 2.5 million. Revenues in 2017 were down by 10% from 2016, or about \$1.4 million.

Of the \$1.4 million revenue decrease: \$325,000 was attributable to a lower selling price, the other \$1,120,000 was attributable to lower volume. \$952,000 of that had been budgeted; the other \$491,000 was unexpected.

Fortunately, the 2017 cost of power sold was also down by 10% from 2016, or \$1.1 million. Of the \$1.1million decrease: \$966,000 was budgeted and \$130,000 was not budgeted.

The net revenue after cost of power sold (i.e., gross profit) was also down from 2016, by \$347,000 because the decrease in revenues was greater than the decrease in cost of power. The cost of power sold represented 73% of total costs in both 2017 and 2016.

All other 2017 operating expenses, on a net basis, were down from 2016 by \$276,000. Labor expense in 2017 showed an increase of \$197,000. \$140,000 was budgeted and the other \$57,000 was not budgeted. Supplies, expenses showed a decrease of \$473,000. We budgeted a \$627,000 decrease, but the \$148,000 shortfall was mainly due to higher benefit costs.

2017 ended with a net loss of about \$310,000, which is a \$350,000 improvement over 2016.

Mr. Dubreuil asked about the increase in customer account receivables from 2016 to 2017. Mr. Conchieri stated that SHELD performed quite a bit of mutual aid in the past year. The payments due for that mutual aid are reflected in the increase in receivables.

Mr. Conchieri then gave a brief overview of the April 2018 Financials.

Reviewing April 2018, kilowatt hour sales were up by 4% from 2017, or 1.5 million kilowatt hours. Revenues in 2018 were up by about 9% from 2017, or about \$414,000. Of that increase, \$238,000 was attributable to a higher selling price; the other \$176,000 was attributable to increased volume. We had budgeted a \$524,000 increase, but fell short by \$110,000.

The 2018 cost of power sold was up by about 20% from 2017, or \$601,000. Of that increase, \$513,000 was budgeted, and \$88,000 was not budgeted. The net revenue after cost of power sold (i.e., gross profit) was down from 2017 by about \$187,000 because the increase in cost of power was greater than the increase in revenue.

All other 2018 operating expenses, on a net basis, were up from 2017 by about \$38,000. Labor expense in 2018 showed an increase of \$40,000, of which \$36,000 was budgeted. Supplies and expenses showed a decrease of \$2,000.

April 2018 ended with a net profit of about \$111,000, however, Mr. Conchieri does not expect it to hold, at that level, for the remainder of the year.

Mr. Dubreuil asked about the capital contributions showing in 2018. Mr. Conchieri said it was from reimbursement on the LED lights from MMWEC. Mr. Dubreuil also mentioned that from the graphs, on page 8, it looks like kilowatt hour sales have held relatively steady for the last five years.

Mr. Conchieri agreed that it did look like that right now but this report shows only four months of this year and it's too early to tell if it will stay that way for the rest of the year.

Mt. Holyoke College Solar Project:

Mr. Fitzgerald announced a major collaborative solar project between SHELD and Mt. Holyoke College. There will be a half a megawatt solar array installed on Kendall Athletic Center. Once completed, it will generate 541,000 kilowatt hours each year. It will supply clean renewable energy to the college and enhance their renewable goals. SHELD is proud to work with Mt. Holyoke College on this project, which has been in the works for about a year. Installation will probably begin in July.

Mr. Fitzgerald handed out a chart showing that, when completed, the project will double the amount of solar in Town.

PV Metering Policy – Grandfather Clause:

Mr. Fitzgerald reviewed last month's Board discussion and approval of the new PV System Metering Policy. The Board had agreed and voted to approve the new policy with the exception of the "Grandfather" clause. Mr. Fitzgerald and Mr. Gilmore rewrote the clause in order to address the Board's request to be more specific on the grandfather clause guidelines. These more specific guidelines were then presented to the Board for their discussion and approval.

Mr. Fitzgerald read:

"Grandfather" Clause: For installations in-service (or applied) prior to the effective date listed above, no changes will be made to the calculation of the charges/credits;

- For the current account. This includes change of account holder name due to marriage, divorce, death, etc.
- For a period of 25 years commencing on the commercial operation date of the system as listed by the MA DOER.
- For systems that have been constructed in stages, the 25-year period will be calculated based upon the weighted average of the separate components of the complete system.

Enhancements to current operational PV systems will void this "grandfather" clause, and they will be metered in accordance with the policy in effect at the time of the change/addition.

Mr. Fitzgerald explained that if the Board approves the clause, it would become part of the previously approved new policy.

On a motion by Mr. Blodgett and seconded by Mr. McAvoy, it was unanimously

VOTED: to adopt the "Grandfather" clause as the General Manager has described on the slide shown on the screen and appearing, above, in these minutes.

After the vote, Mr. Dubreuil commented that at the last meeting, the Board had spent a lot of time discussing the time period designated in the clause. Mr. Dubreuil explained that the Board was trying to recognize the considerable investment that homeowners have put into their solar installations under the terms in the policy at that time. The total investment made by the citizens of South Hadley was \$1.3 million. The change in the policy being presented will not affect the cost of all the power generated or sold back for any of the grandfathered customers for the twenty-five-year period, which should more than account for the life of the installations. The new change in policy maintains the existing full net metering price for any generation consumed in their home and affects only new customers for the price of any extra generated electricity that is sold back to the grid, for which the customer gets a credit. The change means that new customers who generate extra power (not consumed in the home) will be compensated at the

generation rate versus the full net metering rate. This change represents only a small portion of electricity that the homeowner generates and is still very pro-customer when compared to the industry in general.

Rate Structure

Mr. Fitzgerald started the rate structure discussion by highlighting the need to restructure the rates. There has not been a change to current structure in seventeen years. MMWEC provided SHELD with a cost of service study, within the past two years, and it shows that changes are necessary to ensure the long-term financial health and stability of SHELD. The proposed rate structure was recommended and supported by the recent cost of service study and is an approved structure currently used by other municipals.

Proposed changes are also viewed favorably by credit rating agency Standard & Poor's (S&P) for a stable financial performance and credit quality. The proposed changes will have a minimal impact on customers.

Mr. Fitzgerald continued by describing two proposed changes to the rate structure. The Distribution Adjustment Charge (DAC) will be an adjustment (charge or credit) to customers' monthly bills. It will be applied monthly but calculated and adjusted quarterly. It will eliminate excessive or deficient earnings and will ensure that SHELD earns only that amount allowable under MGLs, while minimizing the impact of potentially more substantial rate increases. The Rate Stabilization Fund (RSF) is designed to mitigate the effects of timing differences on reported earnings. The RSF will be used to adjust (increase or decrease) revenues. The amount of the RSF used will be determined annually. The RSF will mitigate timing differences and will stabilize SHELD's annual reported earnings.

Mr. Fitzgerald stated that financial models conducted indicate minimal impacts to ratepayers with this proposed structure, which is a proven structure used by other municipal utilities and will provide stability to SHELD.

Mr. Dubreuil spoke up to say he would like to rephrase the rate structure modification into simpler terms. SHELD has power it owns from the nuclear sites. The power adjustment charge fills the gap between what we own and what we require at times when more power is needed. It accommodates the fluctuation in the prices at these times. Power adjustment charges change quarterly but we always lag behind by a quarter. We are using prices from up to four months ago when we bill customers. Another cost, for the distribution side, is the operating costs of SHELD. We have to cover costs, based on the rates, and there are constant variations in those expenses. We don't have a way to accommodate for those fluctuating operating costs. The DAC will work similarly to the power adjustment charge to give some flexibility when operating costs fluctuate. The RSF will accommodate those fluctuations, that are time-based and have to be accounted for, until earnings catch up because of the lag in the cost of power to when we bill. The changes will allow SHELD to adjust costs either positively or negatively to cover expenses. Money can go in and out of the fund and it will stabilize earnings until everything catches up.

Mr. Fitzgerald commented that the explanation Mr. Dubreuil gave was very good and followed up with the fact that Mass General Laws limit how much the municipal light plants can earn. He also emphasized that these changes will have little impact on the average customer's bill. Mr. Dubreuil commented that the minimal impact is because of the fact that energy costs have been decreasing so any distribution cost increases would likely be offset by the cost of energy.

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Mr. Fitzgerald stated that there was not a need to vote on anything. He just wanted to introduce the concepts to the Board so they will understand them when the new rate structure is presented in the near future. He then asked if the Board had any questions, if the concepts made sense to them, and if they agreed with them. The Board replied that the proposed changes made sense and that they agreed with using them in the rate structure.

New Business:


There was no new business.

Adjourn:

On a motion by Mr. McAvoy and seconded by Mr. Blodgett, it was unanimously

VOTED: to adjourn.

The Open Session ended at 6:58 P.M.

A handwritten signature in black ink, appearing to be "John McAvoy", is written over a horizontal line. The signature is cursive and extends below the line.

Clerk

Approved: July 26, 2018

EXHIBIT A

List of Documents reviewed at the June 28, 2018 Municipal Light Board Meeting

1. Draft Open Session Minutes of the MLB May 24, 2018
2. Outages 6/25/2018 YTD
3. Thank You Letter Plains School
4. Management Financial Statements December 31, 2017
5. Management Financial Statements April 30, 2018
6. PV System Metering Policy Grandfather Clause
7. Rate Structure Modification