



**SOUTH HADLEY ELECTRIC LIGHT DEPARTMENT
BOARD OF COMMISSIONERS MEETING
SELECTBOARD MEETING ROOM, TOWN HALL
AUGUST 23, 2018 AT 6:30 P.M.**

Present for the Board: Chair Greg Dubreuil, Vernon Blodgett, Peter McAvoy, Kurt Schenker
Absent: John Hine

Staff: General Manager Sean Fitzgerald, Financial Manager Michael Conchieri, Administrative Assistant Kim Mendoza

Guest: Jeff Stanek, CPA, Baker Tilly

The meeting convened at 6:30 PM. Mr. Dubreuil announced that due to the debate for the House and Senate seats that was taking place at the high school, the Light Board meeting cable TV coverage would be preempted at 7:00 P.M. The Light Board meeting was being recorded in full and could be watched, at a later date, on channel 15.

Public Comment

Mr. John Howard asked if there had been a decision on whether adding storage to an existing residential PV system bumps someone out of the grandfather clause.

Mr. Fitzgerald stated that a decision has not been made yet and that he and Mr. Gilmore were reviewing how other municipalities are handling storage. He continued to say that Sacramento, CA just wrote the first policy in the country. SHELD and other Massachusetts municipalities are actively following what is happening in other communities. SHELD hopes to have a policy soon.

Minutes Approval:

7/26/18 Open Session

On a motion made by Mr. Blodgett and seconded by Mr. Schenker, it was unanimously
VOTED: To approve the minutes of the July 26, 2018, Open Session.

Manager's Report:

Outages:

There were five outages in the last month. The majority of them were due to trees or branches that came down because of the rain and wind from recent storms. The largest outage was on Taylor Street on August 3rd, which continued overnight into August 4th, when part of a tree came down and broke two poles. The outage affected from 30 to 159 customers at different times during the repair process. SHELD crews were on the scene within minutes and worked all night in order to safely replace the downed power lines, poles and transformers.

A second outage on Granby Road on August 18th affected eight customers for thirty minutes, two customers for five hours and one customer who still doesn't have power because the service was torn from the house. Police and fire were called to monitor the house in case of a fire. The outage was caused by a rotted tree, on private property, which came down and took out several services.

Mr. Fitzgerald commended the SHELD crews for minimizing outages and for doing an excellent job in making the repairs in a safe manner.

Falls Fest Thank You Note:

SHELD received a thank you note from the Falls Fest event planner for supporting the event and for supplying electrical work prior to the July 28 event. Mr. Fitzgerald thanked the linemen, the company electrician and the Operations Manager for their work on this community project.

Legislative Update – Bill 4756:

State House bill 4756 is an act to increase renewable energy and reduce high cost peak hours. Governor Baker signed the bill on July 13, 2018. It was a long political process to get the bill to its current state. SHELD had been monitoring the bill's progress and Mr. Fitzgerald had been participating in statewide efforts to protect SHELD's interests. The State was not recognizing nuclear as a carbon-free generator and did not include it in the renewable portfolio standards (RPS). 80% to 100% of SHELD's power supply is from nuclear power, depending on SHELD's variable electrical load needs. Originally, the State required municipal light plants to be included and become compliant with the RPS. This would have required SHELD, and other municipals, to acquire class 1 renewables for up to 80% of their power supply needs over the next 10 to 15 years, which would have left SHELD's thirty-year, \$55 million, nuclear investment a stranded investment. The current bill excludes municipal light plants. The exclusion of MLP's from the RPS requirement will protect SHELD ratepayers from a doubling of rates and SHELD from having to add power supply that it does not need. In the future, the bill will probably be back with new proposals but for now MMWEC and the municipals have communicated to the State how this would adversely affect municipals.

Mr. Fitzgerald pointed out that this is likely the largest financial threat SHELD customers have faced and how damaging this type of decision can be to our financial stability. Mr. Fitzgerald explained that with SHELD's nuclear energy we are at times emitting zero carbon emissions and therefore we are confused as to why the state would not include these assets in their renewable portfolio standards. Mr. Fitzgerald pointed out that we believe we have the second lowest carbon footprint in the state, second to only Holyoke with their hydro generation. Mr. Fitzgerald also explained that he had put considerable time into meeting with our state representative and energy officials to advocate on behalf of the ratepayers of South Hadley and will continue to monitor future developments.

2017 Audited Financial Statements Report & Presentation:

Mr. Jeff Stanek, from the audit firm of Baker Tilly which specializes in working with municipal utility companies, presented the audit report 2017. He explained that there are several parts to an audit and that he would cover an overview of the audit process followed by an overview of the basic financial statements. Then he would discuss the required communications, current year recommendations and prior year updates.

Mr. Stanek continued by stating that an audit has three phases. The planning phase discusses the risk areas of the organization and is done in their office. The field work phase takes place at the customer site, in April, and looks at transactions and significant dollar items along with some testing. The financial reporting phase statements were prepared in house by management.

There were no major issues identified during the audit. The implementation of two new accounting standards delayed the reporting process. There was a minor restatement of prior financial statements, relating to the revision of the Hampshire County Retirement pension fund calculations.

The Department received an unmodified (clean) opinion, with reasonable assurance for 2017. This is the highest form of assurance that can be provided to the Board. There were two new OPEB statements this year that were implemented; GASB 74 relating to the pension fund and GASB 75 relating to the other benefits. Operations were not overly complex aside from the addition of two new GASB standards.

Mr. Stanek then gave an overview of the financial statement. The Statement of Revenues, Expenses and Changes in Net Position showed a summary of the operating revenue and expenses. The total revenue for 2017 reflected a \$1.5 million decrease, or a 10.6% reduction from the prior year. Of that decrease, 2.5 % is related to a decrease in kilowatt sales, the rest is related to a reduction in pass-through power costs.

There was a 2017 year-end operating loss of \$680,000, which mirrors last year. A second year of losses indicates it may be time to review the rates to see if there is change in costs causing this loss. Management is in the process of looking at the rates. The \$85,000, shown in the cumulative effect of change in accounting principle, is the effect of implementing GASB 75.

The Statement of Net Position showed that over half of the balance sheet is cash. The Months of Unrestricted Cash indicates SHELD's ability to pay its bills. The metric showed the months of unrestricted cash as 2.25 months. The largest liability is the net pension liability. SHELD has little control this over because it is controlled by market fluctuations. The Unrestricted Net Position decreased by approximately \$600,000 as a result of the operating loss.

Mr. Stanek asked if the Board had any questions. Mr. Blodgett requested better labeling on some of the charts in the report in the future. He felt that some of the information was confusing because it lacked detailed labeling. Mr. Dubreuil agreed and Mr. Stanek acknowledged that it would help to clarify parts of the report. Mr. Blodgett also asked about the expected timing of next year's audit report now that Baker Tilly was familiar with SHELD after performing the audit for the past two years. Mr. Stanek indicated that next year it should be in May or June. He explained that the implementation of the new OPEB standards this year took some extra time.

Mr. Stanek then continued with the required communications. The audit firm is required to provide reasonable assurance that the report is free of misstatements due to error or fraud. The audit is not designed to provide assurance on or to review internal controls; those are management's responsibility. There was a review of significant accounting policies to assure they are in compliance with generally accepted accounting policies and standards. In 2017 there were two new accounting policies to report, GASB 74 and GASB 75. There was nothing unusual found in the audit and all the estimates reviewed were consistent and within accounting guidance. There were no adjustments to the general ledger. As the auditor, Baker Tilly must remain independent and cannot make any decisions for management during the audit.

Mr. Stanek then discussed the current year recommendations and status updates. These are areas where controls could be strengthened. He stated that there were no new recommendations. There were some updates to recommendations they made last year. He gave examples and highlighted the changes made to last year's recommendations. The auditors review and update the recommendation list each year. Some of the changes would require hiring additional administrative staff to implement them and that may not be feasible for small companies.

Future accounting pronouncements include reviewing the upcoming accounting changes GASB 83, GASB 84 and GASB 87, none of which is due to be implemented this year.

There was a discussion about what information should be included in the Management Discussion and Analysis (MD&A) report of the audit. Mr. Blodgett wondered if SHELD should include things that may be in SHELD's future. Mr. Stanek said that is up to management to decide what information to include in the MD&A and it is unaudited. Mr. Dubreuil also felt that, to be transparent, SHELD should disclose more current and future items in the report.

Mr. Dubreuil would also like to have notations made to the recommendations in the management letter that would document SHELD's position on those specific items. Mr. Fitzgerald thinks that technology could help address some of the recommendations listed in the letter in the future but the technology is expensive and needs prioritizing. SHELD has had discussions about this topic for over a year now.

Mr. McAvoy asked about the possibility of Mr. Stanek asking his client utilities, who may be similar to SHELD in size and issues, to possibly give SHELD some guidance on these topics. Mr. Stanek said that he could contact a couple of his clients and see if they would be willing to speak with SHELD.

Mr. Dubreuil mentioned that he noticed the investment account value had increased substantially this year and he credited Mr. Fitzgerald for that change. We were not clear where our Town-managed funds were previously invested. Mr. Fitzgerald identified the funds and then the SHELD funds were separated from the Town's investments so they could be easily tracked. Mr. Dubreuil asked Mr. Stanek if he suggested SHELD have its own investment policy. Mr. Stanek said that it would be a good idea. Mr. Conchieri then said that for our funds invested with MMWEC and the Town, they both have investment policies. Mr. Dubreuil asked that Mr. Conchieri send a copy of the policies to the Board.

Mr. Stanek thanked SHELD's financial and management team for their cooperation during the audit process, stating that everything went smoothly. Mr. Dubreuil also thanked Mr. Conchieri and SHELD's financial department for their hard work.

On a motion made by Mr. Schenker and seconded by Mr. Blodgett, it was unanimously
VOTED: To accept the audit report as presented by Baker Tilly.

Schedule Rate Restructuring Special Meeting:

SHELD Management has a proposal for a rate restructure and would like to present it to the Board at a special meeting on September 6th at 6:30 p.m., if that date works for all the Commissioners. It was agreed that the date would work and the meeting will be scheduled to discuss a rate restructuring proposal.

New Business:

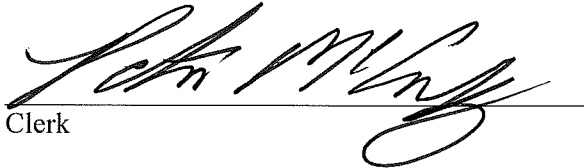
Mr. Dubreuil mentioned that the Manager's contract indicates that the Manager have a yearly evaluation each October. Mr. Dubreuil reviewed the process and stated that he would send the evaluation form that was used last year to each Board member to fill out independently. Then they would return their completed forms to him and he will consolidate them all into one document. Mr. Dubreuil also asked Mr. Fitzgerald to do a self-evaluation and submit it to him, and he would distribute it to the Board members so they would have an idea of what he does on a daily basis. The completed evaluation would be presented to Mr. Fitzgerald at the October Board meeting.

*SHELD BOARD OF COMMISSIONERS MEETING
AUGUST 23, 2018 AT 6:30 P.M.*

Adjourn:

On a motion by Mr. McAvoy and seconded by Mr. Blodgett, it was unanimously
VOTED: to adjourn.

The meeting ended at 7:30 P.M.



Clerk

Approved: September 27, 2018

EXHIBIT A

List of Documents reviewed at the August 23, 2018 Municipal Light Board Meeting

1. Draft Open Session Minutes of the MLB July 26, 2018 meeting
2. Outages 8/20/2018 YTD
3. Thank You Note
4. Legislative Bill 4756
5. 2017 Financial Audit Presentation