

**SOUTH HADLEY ELECTRIC LIGHT DEPARTMENT
BOARD OF COMMISSIONERS MEETING
SELECTBOARD MEETING ROOM, TOWN HALL
SEPTEMBER 27, 2018 AT 6:30 P.M.**

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

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

The meeting convened at 6:33 PM.

Public Comment

Mr. John Howard asked if there was any news on whether installing battery storage to an existing solar system would cause a change the grandfather clause status. Mr. Fitzgerald stated that he did not have an answer yet but that he would have an answer for him by the November meeting.

Minutes Approval:

8/23/18 Open Session

A motion was made by Mr. Blodgett to approve the minutes of the August 23, 2018, Open Session.

Mr. McAvoy spoke up indicating that he was looking for a correction to his comments in the minutes. He stated that what he had requested of Mr. Stanek, and at a previous meeting, was organizing a cohort group of municipal light organizations, of similar size to South Hadley, with which SHELD could collaborate and compare our results. Mr. McAvoy thinks that other businesses and professions do this and his comments were not reflected the way he had intended in the minutes. He thought that perhaps he was ambiguous and wanted to clarify that he was asking for the development of a cohort group that is similarly situated to South Hadley, which SHELD could regularly refer to so that we could broaden our think tank. He stated that this is what he requested of Mr. Stanek, and previously at another meeting, and neither comment had reached the meeting minutes the way he had intended. So he felt the need to bring it up now.

Mr. Fitzgerald asked Mr. McAvoy for the specific things that he was referring to, in reference to the audited financials, when wanting to use this group to compare us. Mr. McAvoy replied that SHELD could use this group when making virtually any decision going forward by looking at what other places are doing. We could have a dialogue with them that did not cause us to lose proprietary information but gain best practices from the other organizations. Mr. McAvoy continued by saying he is not requesting it be a huge project but one that facilitates our decision making. His suggestion was to make the relationships that Mr. Fitzgerald has with Westfield, Holyoke, and Chicopee official, and regularly review things with the group. He would like to see the minutes corrected to reflect his thinking.

Mr. Fitzgerald stated that his comments would be added to minutes. He also said that there is a group called MEAM (Municipal Electric Association of Massachusetts), which involves all of the municipal light plant departments in Massachusetts, which has regular meetings and functions like Mr. McAvoy was suggesting. Board members could attend those meetings, if they wanted, and messages can be sent to the group for perspective. Questions can be floated and discussed to help with decisions on various topics.

Mr. Fitzgerald continued by stating that if there are certain issues Mr. McAvoy wanted discussed, they could be presented to that group. Mr. Fitzgerald said that this is something that is done now and that he attends the MEAM meetings. He mentioned again that Mr. McAvoy's statements would be added to the minutes.

Mr. Blodgett asked if the cohort group, discussed by Mr. McAvoy when addressing Mr. Stanek, would not necessarily have to be clients of Mr. Stanek. Mr. McAvoy answered that was correct, and stated that the minutes did not need to be changed now that he is on record. The reason he brought it up now was because he had mentioned it at a previous meeting and his comments were dealt with in a similar way, maybe he was not making himself clear. He thought that Mr. Stanek, who has connections with those folks, could help select the cohort group. He went on to say that perhaps the MEAM group would be too large. Mr. Fitzgerald mentioned that WMPUC (Western Massachusetts Public Utility Cooperative), the group of Holyoke, Chicopee, and Westfield, along with South Hadley, is another similar group which is smaller and could be tapped for information. Mr. Fitzgerald stated that it's challenging to get the Managers together but we do work together and can use this group as requested.

Mr. Dubreuil mentioned that he thought the only other Massachusetts client of Mr. Stanek was Holyoke Gas & Electric, and we can't compare ourselves with Holyoke. They are different than SHELD with their gas and electric, and they operate on a different basis with their hydro water power. Mr. Stanek could have clients similar to us, but they would be in other parts of the country, with different regulatory requirements, and that may not be of value to SHELD.

Mr. Dubreuil continued by stating that the motion stands as made. Mr. Hine seconded the motion and abstained from voting, since he was not at that meeting, and it was

VOTED: To approve the minutes of the August 23, 2018, Open Session.

9/6/18 Special Session

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

VOTED: To approve the minutes of the September 6, 2018, Special Session.

Manager's Report:

Outages:

The outages last month were minimal. The majority of them were due to animal contact on transformers on Brainerd and Lamb streets. It was a very good month, with only a few outages.

Project 2015A Update:

Mr. Fitzgerald provided the Board with an update on SHELD's participation in the Project 2015A, a 50 megawatt natural gas and ultra-low sulfur distillate fuel oil peaking plant. The Board voted and approved participation, along with fourteen other Massachusetts municipal light plants, in January 2018. SHELD will participate at a 6-megawatt-level, which will provide a portion of SHELD's capacity requirement at a relatively fixed cost. This unit was designed to provide a long-term hedge and price stability to SHELD's capacity costs. Capacity and transmission costs are SHELD's most volatile components of power cost. This will reduce SHELD's open position from 68% to 54%, or by 14 percentage points.

In February 2018, Project 2015A cleared the auction at a price of \$4.63 per kW-month which was critical in order to initiate the project implementation plans and construction. In September, Mr. Fitzgerald was elected Chairman of the Participants Committee and the project is proceeding as planned. Mr. Fitzgerald then highlighted several target dates to watch over the next couple of years. Construction and commissioning should be complete in June 2021 and the project should be operational.

The project budget for pre-financing is \$8.4 million. SHELD's share is \$920,000, which will be billed over the next fifteen months. These costs can be reimbursed to participants when the project financing closes, like a mortgage payment, through MMWEC.

Mr. Dubreuil asked about the auction break-even point. Mr. Fitzgerald stated it was \$4.40, so we cleared 23 cents above our capacity hedge analysis substitute capacity cost. We are to the positive to begin with and, if there is volatility in the market, or high demand, the peaking plant will run a lot and we will be well ahead for our investment.

Mr. Hine asked when we will see the reduction in capacity costs. Mr. Fitzgerald said that we get billed monthly for capacity, we pay and then we will get paid back from the project, starting in 2021, when it's operational. It's a future hedge for SHELD.

Mr. McAvoy commented that his favorite part of the pie chart was the remaining "open position" which we can fill with other things, such as storage capacity, which would be widely in use right now if it weren't for natural gas and fracking. Mr. Fitzgerald replied that many municipalities are heading towards battery storage. MMWEC is looking into it currently and SHELD is interested in it as well. It could have a positive impact on our capacity and transmission payments, which can save us money. It would also be beneficial to the environment and if it's connected to other renewable energy sources, it would help reduce the carbon footprint.

June 2018 Financials

Mr. Conchieri gave a brief overview of the June 2018 Financials.

Kilowatt hour sales for 2018 of 56,845,000 were up by 5% from 2017, or 2,655,000 kilowatt hours. June revenues of \$7,100,000 were up by 10% from 2017, or about \$624,000. Of that increase, \$310,000 was attributable to a higher selling price; the other \$314,000 was attributable to increased volume. We had budgeted a \$788,000 increase, but fell short by \$164,000.

The cost of power sold at \$4,995,000 was up by about 14% from 2017, or \$605,000. Of that increase, \$453,000 was attributed to a higher purchase price; the other \$152,000 was attributed to higher kilowatt hour purchase volume. We had budgeted for a \$488,000 cost increase; the actual was \$117,000 higher.

The net revenue after cost of power sold (i.e., gross profit) of \$2,105,000 was up from 2017 by about \$19,000 because the increase in cost of power was less than the increase in revenue. All other 2018 operating expenses of \$2,200,000 on a net basis were down from 2017 by about \$38,000. Labor expense in 2018 showed an increase of \$25,000, all of which was budgeted. Supplies and expenses showed a decrease of \$62,000, all of which was budgeted.

June 2018 ended with a net YTD loss of about \$45,000, which is consistent with the 2017 YTD loss of \$34,000.

July 2018 Financials

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

Kilowatt hour sales of 66,700,000 were up by 4% from 2017, or 2,349,000 kilowatt hours. July revenues of \$8,345,000 were up by about 10% from 2017, or about \$779,000. Of that increase, \$507,000 was attributable to a higher selling price; the other \$272,000 was attributable to increased volume. We had budgeted an \$873,000 increase, but fell short by \$94,000.

The \$6,028,000 cost of power sold was up by about 12% from 2017, or \$654,000. Of that increase, \$368,000 was attributed to a higher purchase price; the other \$286,000 was attributed to higher kilowatt hour purchase volume. We had budgeted for a \$500,000 cost increase; the actual was \$154,000 higher.

The net revenue after cost of power sold (i.e., gross profit) of \$2,317,000 was up from 2017 by about \$125,000 because the increase in cost of power was less than the increase in revenue. All other 2018 operating expenses of \$2,570,000, on a net basis, were up from 2017 by about \$26,000. Labor expense in 2018 showed an increase of \$33,000, all of which was budgeted. Supplies and expenses showed a decrease of \$7,000, all of which was budgeted.

July 2018 ended with a net YTD loss of about \$109,000, which was slightly less than the 2017 YTD loss of \$150,000.

Mr. Dubreuil stated that it was good to see that with costs increasing our losses are not increasing. Mr. Conchieri replied that YTD sales across the board were up due to the hot weather this summer.

New Business:

Mr. Dubreuil reminded that Board that the Manager's evaluation forms are due back to him electronically so he can get the information ready prior to the October meeting.

He also mentioned that the November meeting falls on Thanksgiving. Last year the Board decided to combine the November and December meeting. This will be discussed further next month.

The last topic he mentioned was that the October MLB meeting falls on the same night as the meeting on the ballot questions for the November elections. Residents may benefit more from understanding the ballot questions live on Know Your Town and we may choose to have the SHELD meeting taped.

Adjourn:

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

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 the Board does not anticipate returning to open session

By a roll call vote; Hine-aye, McAvoy-aye, Blodgett-aye, Dubreuil-aye.

The open session ended at 7:05 P.M.


Peter McAvoy, Clerk

Approved: October 25, 2018

EXHIBIT A

List of Documents reviewed at the September 27, 2018 Municipal Light Board Meeting

1. Draft Open Session Minutes of the MLB August 23, 2018 meeting
2. Draft Special Session Minutes of the MLB September 6, 2018 meeting
3. Outages 9/24/2018 YTD
4. Project 2015A Update PowerPoint
5. June 2018 Financials
6. July 2018 Financials