



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

Present for the Board: Chair Greg Dubreuil, Vernon Blodgett, John Hine, Peter McAvoy, Kurt Schenker (arrived 6:33)

Staff: General Manager Sean Fitzgerald, Financial Manager Michael Conchieri, Administrative Assistant Kim Mendoza, Sr. Engineer Mark Gilmore, Operations Manager Ed Morrin, IT/Office Manager Paul Byrne.

The special meeting convened at 6:32 PM.

Chairman Dubreuil started the meeting by stating that the reason for tonight's meeting was to discuss the rate restructure proposal. He continued by saying that normally the meeting starts with the public comment section but asked that comments be held until after Mr. Fitzgerald's presentation.

Rate Restructure Proposal:

Mr. Fitzgerald explained that SHELD had been reviewing the rates for more than two years and was finally at the point of being able to present a proposal to the Board on a restructure. He stated that electric rates are dynamic and not easy to explain but he would present a summary on how SHELD arrived at its recommendations and the impact they will have on ratepayers.

Mr. Fitzgerald presented a PowerPoint presentation that began with a history and background of the rate restructure proposal. He indicated that SHELD's rates have remained the same for the past seventeen years and, in that time, the power markets, industry practices, and SHELD operations have greatly changed. In order to maintain reliability, protect the ratepayers' investment and provide the level of service our customers deserve, improvements to SHELD's rate structure are necessary.

SHELD had MMWEC (Massachusetts Municipal Wholesale Electric Company) conduct a Cost of Service Study (CSS) which analyzed all costs incurred by SHELD and how much of those costs supplied service to the specific customer rate classes. He stated that SHELD wants to be able to minimize over or under earnings, ensure that costs are adequately allocated to rate classes, and make adjustments that will ensure SHELD's long-term financial security, reliability, and stability. Mr. Fitzgerald also explained that SHELD researched and analyzed other utilities' rates, financial partners, and credit rating agency criteria. The CSS indicated that SHELD needed to update several areas in their charge allocations and components. It also recommended the addition of a cost adjustment mechanism for stabilizing long-term earnings and a rate stabilization fund for stabilizing short-term earnings.

Over the past few months, SHELD introduced the concepts of the Distribution Adjustment Charge (DAC) and the Rate Stabilization Fund (RSF) to the Board in preparation for the rate restructuring discussion. A new distributed generation policy had also been presented and approved by the Board.

The next slide showed a rate schedule summary that listed the rate classes which will remain the same. The rate class name designations will be updated to be more consistent with utility standards. The summary also showed the percentage of customers that make up each rate class, with 90% of SHELD's customer base residential, and the composition of cost sharing percentage, or allocation, for each rate class.

The next slide presented listed the current rates and the proposed rates for each rate designation. The rates are composed of three parts; usage, demand and fixed costs. The proposed rates projected a 1% to 3% increase for all the rate classes which translates to an increase of one to less than three dollars, on average, for residential customers. Mr. Hine commented that the chart showed that the bulk of the residential increase was in the fixed charge which was increasing from \$2.90 to \$5.00. Mr. Fitzgerald replied that was correct, the fixed charge covers certain operating costs of SHELD. He also said that the decrease in the power charge would offset most of the increase in the fixed charge and that the fixed charge of \$5.00 was in line with other municipalities in the area.

Mr. Dubreuil commented that he noticed that, on the commercial side, it was the demand rate that was increasing. Mr. Fitzgerald explained that to balance the cost of service study recommendations, it was decided that the demand charges were more appropriate to restructure for the commercial customers. The demand rates would be increasing from \$6.43 to \$8.00 for small commercial customers and from \$7.50 to \$9.00 for larger commercial customers. The kilowatt hour rate will be decreasing and will offset much of the demand rate increase. Mr. Dubreuil also asked if the new rate schedule had been seen by the auditors for review. Mr. Fitzgerald said Baker Tilly stated that the new rates were in line with best utility practices and were favorable because they add flexibility to the rates. The flexibility allows the utility to cover any normal changes in costs without having to apply for more frequent or higher impact rate changes.

The next four slides showed where SHELD ranks among other utilities in the state for the past year, when it comes to rates in four rate classes. SHELD consistently falls in the bottom ten, or lowest quartile. Even with an increase of \$1 to \$2 for residents, SHELD would still be near or very close to where it ranks today. The proposed changes are projected to have minimal impact on SHELD customers and are consistent with industry best practices. The rate change will enhance SHELD's financial stability and is viewed favorably by suppliers, regulatory agencies, and credit rating agencies.

Mr. Fitzgerald then asked the Board to authorize management to implement the proposed rate structure and establish the rate stabilization fund. Mr. Fitzgerald asked the Board if they had questions.

Mr. Hine asked why rates were not built to cover all costs without having variable parts built into them. Mr. Fitzgerald explained that currently there is one variable part in the rates. However, because we buy power in advance, we estimate what power will cost in the future. This creates the need for variability. Mr. Fitzgerald went on to explain that there are a number of other expenses that are variable and our fixed rates do not always cover them effectively. Mr. Conchieri added that, if we were to lock in all parts of the rates, we would either be over billing or under billing and would need to be constantly adjusting the rates. The purchase power cost can swing up to \$3 million, from year to year. Operating expenses constantly fluctuate and setting a fixed rate would require regular rate changes which can take up to two years to complete. Mr. Fitzgerald said there are also regulatory processes that need to be completed for each rate change, so adding flexibility into the rates, which is automatically tracked, will allow SHELD to operate without submitting constant rate changes.

Mr. Dubreuil commented on the fact that having a municipal utility is an asset to South Hadley. Eversource's rates are 74% higher than South Hadley's and the State average is 28% higher than South

Hadley's current rates. There are also other benefits to having a municipal utility. It is local, more involved with the community, and operates in the best interest of the ratepayers. The value is great, but when we look at the financials, we realize we have not been reinvesting in the Department to keep up with its needs. We have not kept the department up-to-date and that has taken a toll over time. Building a rate structure that fluctuates, with expenses, is a positive for SHELD. It's considered a best practice by our audit firm, Baker Tilly. The proposal Mr. Fitzgerald submitted will allow SHELD to maintain operations at a high level. It is the Board's responsibility to continue to take steps to control costs. The recent investment in a peaking plant, to control capacity, which is our largest open position, will help SHELD reduce expenses in the future. If we expand fiber service, doing so will enable us to allocate costs over two revenue sources. We can still work on being environmentally friendly, with projects like the Mount Holyoke College solar project. Mr. Dubreuil applauded the General and Financial Managers for a sound proposal that will keep SHELD viable in the future and an asset to the community.

Mr. Blodgett referenced the fixed portion of the rates and asked if the proposed \$5.00 charge is less than other municipals in the area. Mr. Fitzgerald stated that they had focused on local municipals and found that, at \$2.90, we were much lower than anyone else. The other utilities have increased their fixed charges over the last five years. The CSS showed that we should be much higher than \$5.00, but we don't want to raise the rate that quickly and \$5.00 puts SHELD in line with other local municipals. Then Mr. Blodgett asked about the importance of having the approval of the credit rating agencies if SHELD should need to borrow money for something, like a new service or building. Mr. Fitzgerald confirmed the importance of SHELD maintaining its excellent credit rating. He stated that flexibility promotes stability in the rate structure which helps maintain a higher credit rating. We posted losses in the last two years, so we need to be proactive and make this change now.

Mr. Dubreuil asked Mr. Fitzgerald to talk about the rate stabilization fund and how it works. Mr. Fitzgerald deferred to Mr. Conchieri who could explain it better. The cost adjustment factors, the PAC and DAC, are forward and backward looking measures. They are not done in real time, there is a time lag. The RSF fund will be built up over time. Revenues from the charges accumulated throughout the year will be transferred in or out of the fund, depending on whether expenses are up or down. This will allow SHELD to keep earnings level. Mr. Fitzgerald commented that the charge would amount to a "mil' or one tenth of a penny. In response to Mr. Hine's question, Mr. Conchieri added that the balance in the fund would be kept to a minimum, approximately \$1 million to start. This would be sufficient to cover the time lag and stabilize earnings. \$1 million may sound like a large number, but SHELD's power costs and expenses are significant, in the \$10 million range. There can be a swing of \$1 million in those expenses from year to year.

Mr. Dubreuil asked if there were any public comments at this time. Mr. Howard commented that he read a report from ISO-NE stating that on the previous Sunday, the heat wave hit a peak at the same time several gas power plants went down. This caused a substantial jump in the cost of power, five times the normal rate, for a few hours on that day. This made him realize how quickly expenses can change. Mr. Fitzgerald said SHELD's nuclear power plant ownership position insulates South Hadley against most fluctuations because we are hedged and not open to real time market fluctuations, especially on off-peak hours. Our investment in the peaking plant makes our position even better. We are thinking strategically to position the utility to absorb future wholesale volatility. He thanked Mr. Howard for mentioning the report.

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

VOTED: to authorize management to implement the proposed rate structure and rates as soon as practicable.

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

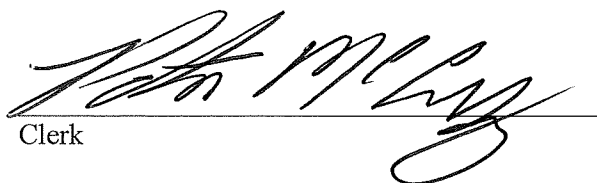
On a motion made by Mr. Hine and seconded by Mr. Blodgett, it was unanimously
VOTED: to authorize management to establish a rate stabilization fund as an integral component
of the proposed rate structure and rates.

Mr. Fitzgerald thanked the Board and the SHELD team who spent a lot of time working on this project. The target date for the new rates to take effect is October, but realistically it will probably be November because of the need to file the rate change with the DPU for approval. Mr. Fitzgerald stated that he will update everyone at the next meeting and mentioned that if customers have any questions they can call or meet with him.

Adjourn:

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

The meeting ended at 7:13 P.M.

A handwritten signature in black ink, appearing to read "John M. [unclear]", written over a horizontal line.

Clerk

Approved: September 27, 2018

EXHIBIT A

List of Documents reviewed at the September 6, 2018 Municipal Light Board Meeting

1. Rate Restructure Proposal
SHELD Special Board Meeting, September 6, 2018