



HINGHAM MUNICIPAL LIGHTING PLANT

31 Bare Cove Park Drive
Hingham, MA 02043-1585
(781) 749-0134 FAX (781) 749-1396
www.hmlp.com

General Manager
Paul G. Heanue
pheanue@hmlp.com

John P. Ryan, Chairman
John A. Stoddard Jr., Vice Chairman
Roger Freeman, Secretary

Meeting Called to Order:

A regular meeting of the Board of Commissioners of the Hingham Municipal Light Plant (HMLP) was called to order at 0735 on Monday, May 21, 2018 at the Hingham Municipal Light Offices at 31 Bare Cove Park Drive, Hingham, Massachusetts.

Present:

John P. Ryan, Chairman; John A. Stoddard Jr., Vice-Chairman; Paul Heanue, General Manager, Jon Asher, Ed Siegfried, Laura Burns, Tom Carey and Diedre Lawrence.

Approval of Previous Meeting Minutes:

The General Manager (GM) presented the meeting minutes for the April 26, 2018 meeting to the Board for their consideration.

MOTION

A motion was duly made by the Vice Chairman to accept the minutes of the April 26, 2018 meeting. The Chairman seconded and they voted unanimously to approve the minutes of the April 26, 2018 meeting.

Financials:

The GM explained to the Board that the HMLP financial system was upgraded and is experiencing issues. As a result, the latest financials are not yet available.

Updates on renewable projects and fiber study:

As earlier reported the T put out to bid the rights to install solar panel canopies at approximately 31-32 commuter rail parking lots- two (2) of which are in Hingham. The successful bidder, with whom we have PPAs for the two (2) sites, recently started drilling holes in the parking lot at the 20 Fort Hill Rd commuter rail station for the support columns. They will soon start doing the same at the Nantucket Junction station.

The GM told the Board that a renewable/distributed energy resource (DER) project may possibly happen with a Hingham based company called Genbright. The company describes themselves as specializing in the integration of DER into power markets. Genbright has partnered with a company called ENGIE (ENGIE manages a range of energy businesses in the United States and Canada, including retail energy sales and energy services to commercial, industrial and residential customers, natural gas and liquefied

natural gas (LNG) distribution and sales, and electricity generation and cogeneration.) and they have, and are seeking additional, grant money available for battery storage. HMLP is in conversations with Genbright and ENGIE about putting battery storage behind the HMLP facility on an existing concrete pad that will be fed from HMLP's solar array, possibly some newly installed ground mounted solar and our distribution system. The GM, Genbright (including their government relations person) and ENGIE folks met with Matt Beaton, Governor Baker's Secretary of Energy and Environmental Affairs, and his top renewable person, Patrick Woodcock, to try to get some grant money for this project. Genbright and ENGIE were tasked with creating financials for further consideration.

The GM explained that regarding the fiber study, HMLP contracted with a DC consultant who is the preeminent consulting company for municipal entities on running fiber. The GM believes HMLP will need to get in to the business of billing using 24/7 time of use rates. To do that HMLP will have to be able to communicate with the meters 24/7. As a result, HMLP has engaged CTC to complete this study in two phases. HMLP has accepted CTC's proposal for the first phase and the kick-off meeting was scheduled for Thursday, May 24th.

Aquarion Discussion:

The GM explained that as a result of years of litigation by the Town there is the potential for Hingham to purchase the company, Aquarion/Eversource (Aquarion), who provides Hingham, Cohasset and Hull with its water. The GM introduced Jon Asher and Ed Siegfried, members of the Water Company Acquisition Study Committee ("Committee"), to discuss the financial, governance and engineering phases of the possible acquisition. They, Asher and Siegfried, stated if the Town were to acquire Aquarion in 2019, the purchase price is currently calculated to be \$108M. This number could change depending on when the acquisition actually occurs.

Ed explained the Committee has been gathering financial information regarding a potential purchase for over 6 years, beginning in June of 2012. In 2011, Aquarion filed for an 18.7% rate increase and the DPU ultimately approved a 10.6% rate increase that would go in to effect in 2012. Using the financial data submitted by Aquarion in their 2011 rate filing the Committee identified approximately \$6.7M in Aquarion costs that could be eliminated annually if the water company was municipally owned. This is approximately 56% of the \$12M in revenue recovery approved by the DPU. With this in mind the Committee felt certain a municipal owned water company could operate it less expensively. However, at that time an acquisition price was unknown. At the 2014 Town Meeting, the Committee described that the sources of the \$6.7M cost savings that could be eliminated with town ownership are: water treatment plant lease costs (\$2.7M), profit (\$1.6M), depreciation (\$850K), income taxes (\$600K), rate case expenses, shared office, legal fees, rent, water for resale (collectively, \$1M). Labor reductions, water treatment costs and water quality control costs were not eliminated in the calculations. It was reported at the 2014 Town Meeting that the Town could:

- invest \$5M for capital improvements in year 1 to address unaccounted water loss and capital needs
- invest \$2M in capital improvements every year thereafter
- issue a \$1.49M refund to the Town for the expenses incurred for funding the study and litigation.

After funding all of this, there would still remain a substantial cost savings difference over a number of years between Town ownership and Aquarion ownership.

In April 2017, Aquarion filed for a 14.7% rate increase with DPU. The amended filing in February reduced the rate increase to 13.2%, bringing Aquarion's base recovery number to approximately \$13.2 M. The DPU has not acted on this rate increase request yet. In addition to the base increase, in the February 2018 amendment, Aquarion also applied for a surcharge to be added to the rate increase for a Water Recovery Improvement Mechanism (WRIM). The WRIM is a proposal to accelerate, through a surcharge, the replacement of aging capital infrastructure (specifically water mains, valves and other elements not associated with the water treatment plant). The Committee is not certain of the impact that this surcharge will have. They believe it will have a substantial impact on the water bills- possibly, in combination with the base rate case, increasing water bills by 25% in 5 years. If the WRIM is approved by the DPU, the difference between Aquarion costs and the water company owned by the Town would increase significantly, given that there is no information available about when the surcharge mechanism would be removed.

If Aquarion gets approval for a base revenue rate of approximately \$13.2M, the \$6.7M in costs that can be eliminated will still be included in their rates. The Town costs of operating the water company will be about \$5.7M to start and will rise around 1.3% annually due to borrowing costs. Included in the \$5.7M municipal costs is an estimate on an outsourcing firm estimated at \$4M. Aquarion proposes to charge \$13.2M, assuming the DPU grants their rate increase, for water in Hingham, Hull and Cohasset. This does not include the WRIM surcharge. There is a real possibility of the WRIM coming to fruition. Assuming Aquarion receives the \$13.2M rate increase and the Town costs to run would be \$5.7M, there is a difference of \$7.4M. This \$7.4M is believed to be sufficient to fund the debt service for the purchase price.

However, at this time, the Committee does not know the following: (i) the amount of the final rate increase that will be approved by the DPU later this year; (ii) the exact impact of the WRIM surcharge on water bills; (iii) Aquarion and Eversource's plan for future rate increases following Eversource's acquisition of Aquarion in November 2017; or (iv) the exact price of the acquisition, which is date-dependent. However, based on the information provided by Aquarion, the Committee believes the purchase will be \$108M rolled through Town Meeting 2019.

The Committee estimates that between the years 2019 and 2049, assuming the rate structure post the 2018 DPU stays the same (it is highly unlikely Eversource will not raise its rates between 2019 and 2049), the cumulative savings with municipal ownership will be in excess of \$100M, ***without the addition of the WRIM charge***. The Committee believes if the WRIM is included, with its compounding effects, the savings accumulates to over \$300M. Worthy of note, Aquarion held off filing a rate case since 2011 when the Town began its efforts at exploring possible purchasing back the franchise. The Committee believes they stayed away from a filing before this for that reason- Hingham was litigating to possibly buy back the franchise. Even prior to the 2018 filing the Town had one of the highest water rates in the Commonwealth. With Eversource's acquisition, effective December 4, 2017, the Committee believes they will be looking for ways (WRIM??) to recover their purchase costs and find ways to continue to increase the payback to their shareholders from the acquisition of Aquarion. The GM noted he has Eversource stock, acquired from when he worked at their predecessor companies, and they always pay dividends. In fact they brag how much higher their dividends are than their peer companies.

The Committee pointed the Board to two takeaways from their financial study: (i) Real estate taxes will not rise as a result of Town's acquisition of the water company; and (ii) Water rates are going to go up but will go up less dramatically and more slowly.

The Committee then discussed how the water company might be run if the Town purchased Aquarion. The Town could issue a Request for Proposals for management purposes. The Committee told the Board to consider whether or not they have the capacity or the interest to take on management of the water company. Factors to consider include: software, management, office support, customer service and ability to serve customers outside Hingham. HMLP's counsel questioned what steps need to be taken for Hingham to manage a water company for Hull and Cohasset and what statutory authority is required for Hingham to do so. The Committee stated the Town is researching exactly what needs to be done. The Committee estimated that there will be approximately \$300K in transition costs and \$400K - \$500K should be built in per year for additional labor, management and billing. These numbers are built in to the above estimated acquisition costs.

The Board expressed that they have interest initially but will discuss it more in depth. The Committee suggests that they do more research, talk to Hull and Cohasset, and talk to other municipal water companies. They will work with the GM closely and then present options to the Board. At that point, the Board can decide how to move forward.

Motion to Adjourn

On a motion duly made by the Vice Chairman and seconded by the Chairman it was unanimously approved to adjourn the meeting at 0924.