



HINGHAM MUNICIPAL LIGHTING PLANT

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Laura Burns, Chair
Michael Reive, Vice Chair
John Ryan, Secretary

REGULAR MEETING HINGHAM MUNICIPAL LIGHT BOARD

May 17, 2022

Zoom Meeting

https://us02web.zoom.us/rec/share/rWzh_hd5JpRCnMXVITljStJAqaTDdSWQ-3lkOeu7waYfRxjAloXJ1Oh_-8NIIGzP.z-NotmY-35v8i66d?startTime=1652785465000

Meeting Called to Order

A regular meeting of the Board of Commissioners of the Hingham Municipal Light Plant (HMLP) was called to order at approximately 0730 on Tuesday, May 17, 2022, via Zoom.

Present:

Board Members: John P. Ryan, Chairman
Laura Burns, Secretary
Michael Reive (new member)

HMLP: Tom Morahan, General Manager
Mark Fahey, Assistant General Manager
Steve Girardi, Engineering Manager
Brianna Bennett, Sustainability Coordinator
Joan Griffin, CPA, Business Manager

Guests: Mayhew Seavey, P.E., PLM Inc.
Deidre Lawrence, Esq.

Other: Members of the Public

Approve Meeting Minutes: a) March 29, 2022; b) Executive Session February 23, 2022; and c) Executive Session March 29, 2022.

Mr. Ryan requested comments to the minutes for the regular Board meeting on March 29, 2022, and to the minutes for two prior executive sessions. Ms. Burns requested that the Board wait until the next meeting to approve these minutes as she did not have an opportunity to review them. There was no objection.

Mr. Ryan introduced the new Board member, Michael Reive, and welcomed him to the meeting.

Transmission Project Financial Model

Mr. Morahan introduced Mayhew Seavey to the Board. Mr. Seavey is with PLM. He prepared a financial model for the Transmission Project.

Mr. Seavey screen shared a report entitled “Hingham Municipal Lighting Plant Financial Projection through 2022 to 2026, Draft Results with Notes,” prepared by PLM Electric Power Engineering, dated March 29, 2022. He explained that the Report models HMLP’s finances through 2026 and incorporates various levers that can be adjusted. He then proceeded to screen-share pages of the Report, explaining how the model works as he proceeded.

Mr. Seavey first presented a page in the Report entitled “Revenues.” He explained that, for purposes of this study, he calculated rate revenue by multiplying billing determinants by rate elements. The projection uses 2022 sales volumes and keeps existing rate elements constant. Next, he presented a page in the Report entitled “Income Statement.” He explained, among other things, that the income statement uses ENE projection for purchased power expense and employs a 2% escalation rate to expenses. Next, he presented a page in the Report entitled “Balances.” Fund balances were forecast using the 5-year budget provided by HMLP and evaluating such items as capital additions, depreciation expense, retirements and debt. He then screen-shared a page in the Report entitled “Dashboard.” He explained that the Dashboard provides a single page where key variables can be input and modified, and results viewed. The inputs for the Dashboard include (i) whether or not the substation project moves forward, (ii) the amount of debt, term and interest rate, and (iii) depreciation rate. The outputs for the Dashboard include (i) the revenue requirement, i.e., how much revenue must be collected to recover expenses including debt repayment, (ii) net income and rate of return, (iii) how the typical residential bill (750 kWh) changes over time, and (iv) the fund balances, i.e., depreciation plus operating cash.

Mr. Seavey explained he used this model to look at scenarios involving the substation. The first scenario looked at was a “do nothing” case, i.e., no substation. In such a scenario, there is no significant change in revenue requirements, net income or fund balances. The rate of return decreases gradually as expenses increase with inflation. This is the standard, steady-state utility rate scenario. Expenses go up with inflation and revenues do not, assuming no rate increases or increases in sales. Mr. Seavey showed this Dashboard to the Board. He explained that the model shows that, without major capital requirements, there is erosion in net income. The depreciation fund balance is more than adequate to fund HMLP’s normal capital needs and operating cash continues to build. There are no red flags in this scenario. An income statement and balance sheet for this scenario, from CY22 to CY27, was presented.

Mr. Seavey asked the Board if they had any questions on how the model works before moving to discuss the substation and how it effects things. Ms. Burns noted that she had a couple of questions. First, she mentioned that HMLP will be conducting a rate study in the Fall that may dramatically change the numbers here, given that the model assumes that rates stay the same. She then asked whether the escalation rate for expenses should be higher than 2% for the short term. In response, Mr. Seavey noted he has used escalation rates between 3.5% and 4.5% for 2022 in other studies, dropping this percentage down in other years. He noted that 2% might be too optimistic and can be adjusted. Further, Ms. Burns asked whether the dashboard could be adjusted if HMLP decides to defer capital expenses as a way to maintain rates. Mr. Seavey stated that this can be done. Mr. Reive then asked about the use of 750 kWh for a typical residential customer. Mr. Seavey explained that this is a standard. There was further discussion.

Mr. Seavey then screen-shared a page in the Report entitled “Case 1 – Substation Funded with \$50 million bond issue.” He explained that in this case scenario, the model shows a \$3.5 million increase in revenue requirement in 2024 and another increase of \$2.3 million in 2025. In the absence of a rate increase, net income in this case scenario becomes negative beginning in 2025. Mr. Seavey then showed the 6-year dashboard for this. He noted that fund balances draw down, depreciation draws down and operating cash draws down. Capital funds go from \$38 to \$8 million. He noted that the model allows HMLP to evaluate different funding scenarios.

Ms. Burns noted that she and Ms. Griffin previously discussed how to buy down or pay for the substation without bonding and had discussed paying principal out of the depreciation fund and interest out of stranded

cost. She noted that splitting payments might be one way to decrease the revenue requirement. Mr. Seavey noted that he could adjust the model to do this.

Mr. Seavey then screen-shared a page in the Report entitled “Next Steps.” The next steps are to: 1) explore the impact of varying the size of the bond issue; 2) explore means for raising additional rate revenue, and 3) explore maintaining a higher depreciation rate. He noted that HMLP can evaluate its options using various scenarios.

Mr. Ryan asked Mr. Morahan how long it will take to permit the substation, and whether this would be accomplished by 2024 or 2025. Mr. Morahan indicated that it would be reasonable to assume that the permitting would be completed by 2025, given that obtaining approvals from the Electric Utility Siting Board should take about 2 years due to a backup in projects, and obtaining local permits/approvals might take another year. Mr. Ryan noted HMLP will mainly incur engineering costs for the substation project until about 2025. In response, Mr. Seavey agreed to adjust the model to reflect a start date of 2025 rather than 2024. He noted that HMLP will have more time to accumulate cash for the project. If the project does not go ahead, funds can be returned to customers.

Ms. Burns asked about next steps. She noted that HMLP can continue to ask DPU for higher depreciation rate until the project goes forward. HMLP can also model using stranded cost. Mr. Morahan agreed that HMLP should model various scenarios. He also noted that having the rate study completed will be key to understanding the numbers. He also noted that, as far as the depreciation is concerned, once the substation project is put on HMLP’s books, HMLP will not be able to afford depreciation associated with a \$60 million project and will have to decrease the depreciation. Ms. Burns noted that the current model lowers the yearly depreciation to account for this (5% for next couple of years, and 3% thereafter).

Mr. Ryan noted that the dashboard can be used to explore different scenarios. He noted that the model should be adjusted to increase inflationary estimates and interest rates for now. Hopefully interest rates will be back to normal by the time HMLP bonds. Ms. Burns noted that HMLP cannot bond until the permitting process for the substation is complete and, as a result, will be stuck with the going interest rate when that time comes. Mr. Ryan commented that HMLP wants the authority to bond next year. Then, HMLP should look hard at what the Town has done in the past during the early stages of financing other projects. This is what Ted Alexiadas suggested to the Board. If HMLP can borrow at low rates in the short term, they might want to consider that and keep turning it over. However, any such strategy would need to be discussed with bond counsel and HMLP’s attorneys.

Mr. Reive asked whether HMLP’s rate study is on schedule. Mr. Morahan noted that HMLP is gathering pricing information at this time. The rate study is slated to start in the Fall and will take about 3 or 4 months to complete. This will be discussed more fully at next meeting.

Ms. Burns asked Mr. Seavey to share his model with the Board. Mr. Seavey indicated that he would. He further noted that he would revise the model to address the Board’s comments.

Mr. Seavey was thanked for his time.

Deidre Lawrence, Esq. – Rebates Legal Opinion

Mr. Morahan explained that he had asked Attorney Lawrence to provide an opinion on the legal ramifications, if any, associated with rebates funded by municipal lighting plants.

Ms. Lawrence addressed the Board. She noted that Mr. Morahan did not provide her with information on the particulars of any rebate program. As a general concept, however, she advised that giving away ratepayer money to only certain ratepayers without justification is not necessarily an appropriate use of ratepayer funds under Chapter 164. That being said, Chapter 164 does have language which allows light plants to sell equipment for cash or credit at prevailing rates. Given such language, HMLP might consider offering financing to help customers fund heat pumps and that sort of thing.

Mr. Morahan noted that HMLP is required by DPU to spend ¼ of 1% of revenue each year for conservation purposes or RCS (Resource Conservation Systems). He asked Ms. Lawrence if the RCS requirements might be something to consider. Ms. Lawrence noted that the intent of the RCS program is to conserve electricity. She is not sure you can “shoe horn” measures that increase electricity as RCS, but she will look into that.

Mr. Ryan noted that he does not like the idea of using department money to subsidize solar installations because they decrease revenue base, and asked Ms. Lawrence her thoughts on this. Ms. Lawrence responded that this is an interesting question. However, the bigger issue is “rate discrimination.” Ratepayer funds must be used in a nondiscriminatory fashion. There has to be a justification for using surplus that DPU says has to go back to everyone. There is nothing to say that light plants can take such money and construct something that does not benefit all of the ratepayers. Although there may be a policy argument that rebates benefit everyone, this has not been tested.

Mr. Ryan asked whether HMLP might be better off increasing their PILOT and giving money to the Town for rebates. Ms. Lawrence stated that this might be something Towns can do by way of Green Communities. She also noted that towns can appropriate money as they see fit.

Ms. Burns suggested that there is a mid-point here between having no justification for rebate programs and having a justification focused on societal impact. She argued that HMLP has an interest in applying incentives that help shape its load and manage demand for all ratepayers. Solar installations have the effect of decreasing demand. Heat pump installations have the effect of increasing demand. Batteries, over time, will have the effect of allowing HMLP to shape its demand. All of this put together allows HMLP to benefit all ratepayers. Ms. Lawrence cautioned that, if HMLP were to rely on such justifications, HMLP would need a plan spelling this out, specific to Hingham ratepayers. Consideration would also need to be given to people who have limited funds and/or who don't own homes.

Ms. Burns noted that she supports the idea of developing a comprehensive plan with regard to such matters. Brianna Bennet added she has ideas on how to handle this with regard to landlords. Mr. Reive added that the hurdle here is treating everyone the same. Ms. Lawrence reiterated that HMLP needs to consider “rate discrimination.” HMLP is not in the business of giving money away for certain types of equipment. Rather, HMLP has to act within the scope of Chapter 164. She warned that this is an area where ratepayers may mount a challenge. The issue is complicated because HMLP is talking about taking money from a pool of revenue collected from all ratepayers without a cohesive plan about how HMLP is going to address things. Ms. Lawrence then suggested that the Board and HMLP work together to come up with a “wish list” and a game plan to achieve the wish list, and that the plan should be vetted with her.

Ms. Burns asked whether it is fair to say that HMLP is in the business of shaping its load and demand into the future to ensure the future of HMLP. Ms. Lawrence agreed that this is fair, but that this would need to be explained in the plan.

Mr. Ryan asked Ms. Lawrence whether the Board has the authority for establishing programs like this, or whether the Board's authority is to decide policy for the program and ask the GM to put the rest together. Ms. Lawrence noted that this was a good question. She then explained the case law on this to the Board. She noted that setting policy is clearly within the purview of the Board, and that there is no bright-line test for determining how “far into the weeds” the Board can go. Generally speaking, she recommends that Boards and general managers work together. As far as determining whether a board is exceeding its authority, “the devil is in the details.”

Ms. Burns then asked Ms. Lawrence if insulation and weatherization of antique homes might fall within the scope of an RCS (Resource Conservation System). She noted that there are about 800 antique homes in Hingham and properly insulating them can cost about \$8,000. Ms. Lawrence stated that this is an accounting issue and involves making sure that the money is coming out of the right pot. Ms. Burns also asked whether the arbitrage fund, which is from selling RECs, can be used for green projects. Ms. Lawrence noted that arbitrage monies are linked to ratepayer funds.

Ms. Lawrence was thanked for her time.

Pace Program Presentation – Brianna Bennett

Mr. Morahan asked Ms. Bennett to briefly explain the PACE (Property Assessed Clean Energy) program to the Board, so that the Board could determine whether or not to recommend the program to the Select Board.

Ms. Bennett stated that she had an opportunity to learn about the PACE program from Robert Dolan, the Vice President of Investment with MassDevelopment. PACE is a financing program that allows commercial properties to invest in energy improvements, such as heat pumps, insulation and solar. The financing flows via a betterment assessment for the improvements, tacked onto the property tax bill. If the assessment remains is not paid off when sold, future owners are responsible for the assessment.

Mr. Ryan asked whether the program involves lower interest rates. Ms. Bennett indicated that the program provides lower interest rates as well as longer term financing. Mr. Ryan noted that the program would be a better solution for residents, if extended to them. Ms. Bennett stated that there are two separate programs – C-PACE (commercial) and R-PACE (residential). Massachusetts does not yet have a residential program due to concerns with unfair practices.

Motion: Ms. Burns moved to endorse asking the Select Board to adopt a resolution to become part of the PACE program and to offer the Sustainability Coordinator’s support in marketing this. Mr. Ryan seconded the motion. All were in favor. The motion was adopted.

Power Supply Policy – Draft Plan – Laura Burns

Ms. Burns explained that she drafted a policy addressing the Board’s role in helping the Town with its commitment to achieve net zero by 2040. She further indicated that she has discussed this policy in detail with HMLP staff to see if it is a good idea. The idea now is to introduce this policy to the Board.

Ms. Burns indicates that the policy speaks to HMLP’s commitment to someday reaching a carbon free power supply. The policy seeks to: 1) maintain affordable rates; 2) provide adequately for maintenance of HMLP’s assets; 3) find the most cost-effective path to power-supply conversion, and 4) avoid purchasing renewable energy which pollutes in other ways. Ms. Burns noted that there are obstacles to this, each of which are discussed in her draft policy document. There are also pathways to achieve the goals, which are also discussed. Ms. Burns then discussed the essence of her draft proposal in detail.

Ms. Burns noted that her idea is to post the policy on HMLP’s website. She would like to discuss the policy at next Board meeting. Mr. Morahan agreed to put this on the agenda.

Incentives Programs: heat pumps, solar, weatherization recommendations – Brianna Bennett

Mr. Ryan asked Ms. Bennett to limit her presentation on this topic. He noted that -- in light of what was previously discussed with Ms. Lawrence during the meeting about putting together a coherent plan that conforms to everyone’s understanding of what HMLP must do to be fair to all ratepayers -- that all of this may need to be further flushed out. Ms. Bennett noted that her presentation partially covers benefits the grid and is helpful.

Ms. Bennett screen-shared a Document entitled “HMLP Incentives: Weatherization, Heat Pumps and Solar.” She then noted that she recently attended a presentation by Lisa White at Passive House Institute, discussing how incentives can benefit the grid. She then showed a graph entitled “Load Demand” and explained that this graph shows typical peaks in demands during winter and summer. She explained that the goal is to flatten peak curves. Loads come on at different times during the day. A graph showing energy demand trends in California was then shown to the Board. The graph shows drop in demand when solar comes on during the day. Strategies to flatten the curve include weatherization, insulation, solar and heat pumps. This was briefly discussed.

Ms. Bennett recommends that HMLP have the following incentives: 1) for weatherization, 50% of total project cost up to \$2,000; 2) for heat pumps, up to \$750 per ton up to \$4,500 maximum, with an adder for weatherization of \$500 and an adder for whole home of \$250; 3) for solar, consider lowering solar incentives and increasing battery incentives, as this might help with peak sharing. She also recommended certain guidelines for such programs. Further, she suggested the following budget: 1) for heat pumps, \$100,000; 2) for weatherization, \$100,000; and 3) for solar and batteries, \$100,000.

Mr. Ryan stated that HMLP needs to have a plan before adopting pieces of it. Ms. Burns agreed, adding that the plan needs to lay out legal justification for all of this. Ms. Burns then offered to work with Ms. Bennett on all of this. Mr. Reive added that more detail might be required.

Following this discussion, Mr. Ryan noted a time constraint, and suggested that the remainder of the meeting be devoted critical items such as Mr. Morahan's contract and the election of Board Officers. He suggested that other, remaining agenda items be deferred to next meeting. This was agreeable to the other Board members. Ms. Burns suggested that any public comments be sent to the General Manager.

Vote to Extend GM's Contract to July 1, 2025

Mr. Ryan noted that the Board had approved a 2-year extension of Mr. Morahan's contract until July 1, 2025, during executive session at last meeting. This was now being brought for approval during open meeting.

Motion: Ms. Burn moved to discuss and approve Mr. Morahan's contract. Mr. Reive seconded the motion. Ms. Burns noted that she was in favor of the contract. All voted in favor.

Election of Board Officers

Mr. Ryan nominated Ms. Burns as Chair. Ms. Burns accepted the nomination, and all were in favor. Mr. Ryan nominated Mr. Reive as vice-chair. Mr. Reive accepted the nomination, and all were in favor. Ms. Burns nominated Mr. Ryan as Secretary. Mr. Ryan accepted the nomination, and all were in favor.

Ms. Burns thanked Mr. Ryan for his years of service as Chair to the Board.

Motion to Adjourn

Mr. Ryan moved to adjourn the meeting. The motion was seconded and all were in favor. The meeting adjourned at 0939.

List of Documents Provided to Board Members for the Meeting

- Meeting Agenda
- Draft minutes from Executive Session during Board meeting on 2/23/2022
- Draft minutes from the Regular Board Meeting on 3/29/2022, and from the Executive Session on 3/29/2022
- "HMLP pathway to a 100 percent carbon-free power supply – DRAFT," prepared by Laura Burns
- HMLP Financials, 3 year summary and YTD, February
- "First Amendment to Hingham Municipal Lighting Plant General Manager Employment Agreement."
- Document entitled "PCA Explanation"
- Document entitled "PACE Massachusetts," dated April 2022, prepared by MassDevelopment.

Documents Shared During Meeting

- Report entitled “Hingham Municipal Lighting Plant Financial Projection through 2022 to 2026, Draft Results with Notes,” prepared by PLM Electric Power Engineering, dated March 29, 2022.
- Document entitled “HMLP Incentives: Weatherization, Heat Pumps and Solar.”