



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
Thomas Morahan
tmorahan@hmlp.com

Laura M. Burns, Chairman
Michael Reive, Vice-Chair
Tyler Herrald, Secretary

REGULAR MEETING
HINGHAM MUNICIPAL LIGHT BOARD
June 11, 2024

A regular meeting of the Board of Commissioners of the Hingham Municipal Light Plant (HMLP) was called to order by the Board's Chair, Laura Burns, at 7:30 am on Tuesday, June 11, 2024, via Zoom.

Present:

Board Members:

Laura Burns, Chair
Michael Reive, Vice-Chair
Tyler Herrald, Secretary

HMLP:

Thomas Morahan, General Manager
Mark Fahey, Assistant General Manager
Stephen Girardi, Engineer
Jeff Jones: Line Division Supervisor
Joan Griffin, Business Manager
Ellen McElroy, Customer Service
Christine White, Customer Service
Brianna Bennett, Sustainability Coordinator

Meeting Called to Order

Ms. Burns read the following disclaimer into the record: *This meeting is being held remotely as an alternative means of public access pursuant to Chapter 2 of the Act of 2023 and all other applicable laws temporarily amending certain provisions of the Open Meeting Law. You're hereby advised that this meeting and all communications during this meeting may be recorded by the Town of Hingham in accordance with the Open Meeting Law. If any participant wishes to record this meeting, please notify the chair at the start of the meeting in accordance with M.G.L. c. 30A, § 20(f) so that the chair may inform all other participants of said recording.*

Ms. Burns asked if anyone other than HMLP wished to record the meeting. No one responded affirmatively.

Review of 2023 Audited Financials – Goulet, Salvidio, & Associates P.C.

The Hingham Municipal Lighting Board welcomed Tracy Vaughan and Adam Schremser from Goulet, Salvidio & Associates P.C. to present the HMLP Financial Statements December 31, 2023 and 2022.

Ms. Vaughan reported that Hingham Municipal Lighting Plant (HMLP) received a clean audit opinion, the highest level of assurance from auditors. The audit report includes standard language outlining the responsibilities of management and auditors. The Management Discussion and Analysis (MD&A), prepared by Mr. Morahan, provides a comprehensive overview of the year, and Ms. Vaughan's team verified its consistency with the financial statements. The Statement of Net Position indicates a strong year for HMLP, with \$14 million in current assets against \$2 million in current liabilities, showcasing a robust current ratio. Significant funds were allocated to the depreciation fund, and the rate stabilization fund remains strong. Compared to other light departments in Massachusetts, Hingham ranks in the top tier based on financial health, despite lower kilowatt hours sold.

The utility plan shows a modest increase from \$23 million to \$25 million, with depreciation expenses impacting asset growth. Deferred outflows related to pensions and OPEB (Other Post-Employment Benefits) are amortized over five years to manage financial impacts. Total assets increased from \$74 million to \$81 million, with current liabilities remaining low at \$2 million. Pension liabilities doubled due to investment performance but are expected to decrease. Deferred inflows and outflows related to pension assets and OPEB are detailed, showing how they impact the financial statements. Unrestricted net assets amount to \$5 million, indicating financial strength despite various liabilities.

Sales are nearly breaking even, with operation and maintenance costs showing a slight increase. Transmission costs decreased, leading to overall savings. Income before contributions and transfers increased from \$3.9 million to \$5.5 million. Cash flow is positive, with reserves increasing from \$5.7 million to \$7.6 million, demonstrating financial stability. Investments included \$3 million for the depreciation fund and \$5 million for infrastructure, resulting in a slight cash decrease from \$9.7 million to \$9 million. The OPEB trust assets increased from \$2.1 million to \$2.3 million, attributed to earnings of \$183,000 this year.

The footnotes required for the financial statements cover various important aspects. Footnote one provides a summary of significant policies, noting that the utility plan's depreciation rate, typically set at 3%, has been increased to 5% due to significant ongoing projects. Footnote two addresses concentrations of credit risk, highlighting concerns about exceeding FDIC coverage limits and the challenges of assessing credit risk when commingling funds as required by the town. Footnote three briefly discusses the insurance reserve, while footnote four provides information on the rate stabilization fund and its balances. Footnote five details the depreciation fund, which resembles an investment footnote, with a breakdown of the \$27 million allocation among government securities, MDT savings accounts, and money market funds. Footnote six examines the \$987,000 in other accounts receivable related to jobbing and solar credits. Footnote seven explains the necessity of reserves deposited with suppliers for the

Purchase Power Working Capital. Footnote eight details investments, specifically Hingham's affiliations with Hydro Quebec and ENE. Footnote nine covers transactions with the town, including money exchanges, services provided and paid for, and pilot programs. Footnote ten provides a breakdown of plant investments, noting a \$3 million increase in plant assets and \$1.9 million in work in progress, totaling \$5 million in infrastructure spending. The bottom section details \$3.4 million in annual depreciation.

Footnote eleven explains the reconciliation of the equity section's restricted net position, derived from the cost of capital assets minus accumulated depreciation, without debt impact. Footnote twelve is extensive, covering pension-related inflows and outflows, including a \$459,000 advance payment for the next year's contribution, categorized under Deferred Outflows of Resources. It includes assumptions used by actuaries and the impact of potential changes in the actuary's discount rate assumption on liabilities, illustrating how a 1% change can significantly affect liability figures.

The Other Post-Employment Benefit (OPEB) trust section begins on page 13, detailing the investments within the trust. By page 27, a table breaks down the \$2.3 million in the OPEB trust, including corporate bonds, equities, mutual funds, government securities, and a small money market portion. The subsequent pages describe OPEB trust management, benefits, contribution methods, and investment policy. The current liability is \$4 million, based on assets of \$2.2 million as of June 30th. There is also a discussion on the impact of a 1% change in the rate of return on the OPEB liability, currently based on a 6.6% rate of return, and a benchmark comparison of OPEB against health insurance rate increases. Page 14 elaborates further on the OPEB liability, with some overlap with earlier footnotes, while page 32 presents a picture of the deferred outflows and inflows, similar to the pension presentation.

Page 15 covers the insurance trust, noting participation in a self-insurance trust group with 17 municipalities, with the trust covering a portion of insurance and the department self-insuring any excess. Note 16 details power commitments and contracts, spanning several pages, including the MMWEC portion of power. The Required Supplementary Information (RSI) includes a 10-year presentation of pension data, currently covering nine years, with the final year to be added next year. This presentation shows pension trends over time, as required by GASB standards. The OPEB RSI also requires a 10-year presentation, spread across two pages due to the volume of information, helping to visualize trends and variations over the years.

The last footnote, on page 40, discusses any changes in assumptions throughout the year, such as adjustments to inflation rates for OPEB. Page 41 describes sales categories, including residential, commercial, municipal, and street lighting, compared to 2022. The final page, page 42, provides more details on the \$26 million decrease from \$26.8 million, breaking it down into power, distribution maintenance, customer deposits, and general categories, highlighting changes such as the increase in employee pension and benefits from \$950,000 to \$1.6 million.

The RSI includes a required 10-year presentation of pension and OPEB data, showing trends over time. Footnotes discuss changes in assumptions, sales categories, and the breakdown of operational expenses. The internal control letter recommends improvements, particularly in drafting financial statements, which is a common deficiency for a municipality of this size. The

DPU report, created using department-provided information, includes financial and operational data, ensuring comprehensive review and accuracy.

As part of this audit, Goulet, Salvidio & Associates P.C. issues an internal control letter that includes recommendations for improvement within the municipality. One significant item noted this year involves the drafting of financial statements. According to the AICPA (the Accounting Standards Board), if the client does not draft the financial statements entirely—from the balance sheet to the footnotes—there is a risk of potential mistakes or material misstatements since auditors are not involved in daily operations. While this is considered a significant deficiency, it is common for departments of this size. Typically, the auditors draft the financial statements, review them with management, and ensure their accuracy collaboratively. Large organizations like United Way usually have the capacity to draft their own financial statements due to having a dedicated CPA on staff who stays current with all GASB updates. However, for an entity of this size, hiring a CPA to draft the statements would be impractical due to the constant changes in GASB standards. It's more efficient for the auditors to handle the drafting and ensure compliance.

Additionally, Goulet, Salvidio & Associates P.C. creates the DPU report using information provided by the department. This report includes financial statement data, such as the balance sheet and profit and loss, as well as operational data like footage of poles or the number of meters. While the auditors draft the report, the detailed information is supplied by the department and then reviewed before finalization.

A motion to for the board to accept the draft financial statements as presented
Today:

Mr. Herrald: Aye
Mr. Reive.: Aye
Ms. Burns: Aye

Discussion of a Plan to be Carbon Free or Net Zero by 2040 – Laura Burns

Ms. Burns considered the town's goal of achieving net zero carbon emissions by 2040, requiring the light plant to transition to a 100% carbon-free power portfolio. Ms. Burns wants to develop a plan aligning with this target, and proposes hiring a consultant to conduct a study to achieve a carbon-free power portfolio, smooth demand curves, and reduce costs. This plan may include power contracts, battery storage for peak shaving, and local generation, likely solar, and could provide emergency backup power for critical infrastructure during outages. However, rapidly changing technology and market conditions might make the plan obsolete in a few years. Mr. Morahan suggested discussing the feasibility and utility of such a study.

Mr. Herrald emphasized the need to accurately predict future demand to avoid financial risks from over-procuring power. He noted that while some forecasts are aggressive, the town's demand growth remains uncertain. Accurate demand projection should be a primary focus to develop a sustainable supply plan. Mr. Reive echoed this concern, highlighting the challenge of

managing future power demand, particularly with integrating electric vehicle batteries and optimizing their use for local benefit.

Mr. Herrald reviewed other towns' sustainability plans and raised concerns about reliance on spot market purchases for power supply due to potential price volatility. He suggested establishing a policy with a minimum threshold for contracted supply to mitigate these risks. Currently, Hingham aims for 25-30% reliance on the spot market, which he considers prudent. Mr. Morahan noted that typically, 80% of the power supply is hedged with contracts, with the remaining 20% fluctuating based on various factors.

Ms. Burns is considering approaching the Energy Action Committee to support the study under the Green Communities plan. This study would assess future demand projections, explore demand management strategies, and optimize the supply approach to avoid over-reliance on volatile spot markets. Mr. Reive suggested a high-level study outlining key areas for detailed research later, ensuring a preliminary plan that can be reviewed and revised annually.

Ms. Burns proposed drafting questions and writing an RFP for the study. Mr. Morahan agreed, suggesting developing and prioritizing a list of questions before consulting with an analysis group. Board members supported the idea, emphasizing a medium-term study projecting out to 2040 and including different supply scenarios and their costs. This approach would help address uncertainties, such as the future of wind energy and intermittency issues, and provide a practical plan to meet the town's goal of a 100% carbon-free power portfolio.

A motion for HMLP staff to generate a list of questions that a potential study could address regarding how we can achieve a carbon-free portfolio by 2040, as mandated in the town's climate action plan.

Mr. Reive: Aye.

Mr. Herrald: Aye.

Ms. Burns: Aye

Discuss Income Adjusted Rate for General Heating Rate

Last month, a proposal was made to include HMLP customers on the General Heating rate, leading to a request for an analysis of its economic impact. Following this request, the HMLP Staff reviewed the proposal and prepared two documents for the board to discuss.

The first document, prepared by Ms. Bennett, is the "Template Adaptation for General Heating Rate." This document adapts the income-adjusted rate template specifically for General Heating rate customers. It includes data for 123 customers, broken down into three levels of enrollment: 10% enrollment (12 customers), 50% enrollment (62 customers), and 100% enrollment (all 123 customers). The document illustrates the impact on individual customers as well as the overall revenue impact. For instance, at 10% enrollment, the revenue impact is approximately \$120 per month, while at 100% enrollment, the impact is just under \$1,200 per month. Annually, the total impact ranges from about \$1,440 to \$14,000, with individual customer savings averaging around \$10 per month or \$120 per year.

Ms. Christine White prepared the second document which is an in-depth analysis focusing on the bills for all 123 customers based on their April 2024 statements, which reflect March consumption. The average consumption for these customers was 1,400 kWh per month, significantly higher than the 750 kWh average for other residential customers. Before applying the income-adjusted rate (IA), the average bills were \$242, which would reduce to \$218 with the proposed 10% discount. The analysis also identified Station Street as a high-impact area, where 18 units in an apartment building could lead to an \$80 exposure for that building alone.

These documents provide a thorough overview of the potential financial impacts and benefits of extending the income-adjusted rate to General Heating rate customers, offering valuable insights for the board's decision-making process.

A motion to include customers currently on the General Heating rate in the group eligible for the income-adjusted rate, which provides a 10% discount.

Mr. Herrald: Aye.

Mr. Reive: Aye.

Ms. Burns: Aye.

Board's thoughts on the IUI presentation by Ashley Muspratt during 5/14 Board Meeting

The board discussed their thoughts on last month's presentation about the on-bill financing program proposed by the Center for EcoTechnology. This program aims to help customers finance energy retrofits. There is a need to decide if this program is suitable or if alternative financing options should be explored.

They reviewed the proposal details, including cost structures for pilot and research phases. There was consensus to explore the program further but also to compare it with another proposal for better market insight. Ms. Bennett provided additional context on state-level financing discussions and plans to gather more information from related meetings. They agreed to revisit the topic in an August meeting after further research.

Approve Meeting Minutes

A motion was made to approve the meeting minutes of May 14, 2024, with the minor adjustment of removing the word "solar" from heat pumps.

Mr.. Reive: Aye

Mr. Herrald: Aye

Ms. Burns: Aye

Financials 3-year Summary and YTD - April 2024

Mr. Morahan reported April as another strong month. Kilowatt-hour sales were up compared to 2022 but slightly below 2023 levels. Despite this, our revenue was lower than in 2023 due to sales, though our expenses remained consistent. HMLP achieved a net income of nearly \$500,000 for April, bringing our year-to-date earnings to \$1.5 million. However, HMLP is approaching the 8% cap on earnings, raising some concerns. To address this, Ms. Griffin is proposing a decrease in the Power Cost Adjustment (PCA). Our budgeted power costs for 2024 are under budget by \$875,000 year-to-date. Ms. Griffin contacted ENE to check for any projected changes, but they confirmed adherence to the budgeted numbers. Therefore, the plan is to return this \$875,000 to ratepayers by spreading the reduction over the next seven months, starting with a lowered PCA on June bills.

Updates: Transmission Line Project, HMLP Solar, Municipal Solar, Capital Projects, Demand Response Program

Transmission Line Project: Mr. Morahan reported he had a productive joint meeting with the zoning and planning boards about our transmission line project. Despite some Zoom link issues, the boards agreed on most standard project conditions, including a setback adjustment from Old Hobart Street. These recommendations will now go to the Select Board. No further formal meetings with the zoning and planning boards are expected, as they don't have a permit review role for this project.

HMLP Solar: HMLP is awaiting a piece of equipment scheduled for arrival in October, 2024. Ms. Burns wants to remove this item from updates until the equipment arrives.

Municipal Solar: Now under the Distributed Energy Resource Group, there is a meeting scheduled for tomorrow, June 12, 2024. The current focus is on outreach to commercial building owners to connect them with the PACE program for energy retrofits, including solar installations. The group hasn't yet approached the town about retrofitting municipal buildings, but it's on the agenda. Progress has been slower than anticipated.

Capital Projects: HMLP is concentrating on Circuit 9, a major project this year. We recently received the insulators needed for the transmission lines entering town, after a two-year wait. We plan to start the bidding process soon and aim to complete the project in October, 2024, coinciding with a scheduled line outage.

Demand Response Program: A decision has been made to proceed with Connected Homes due to limitations with other providers who could only work with MMWEC due to existing agreements.

Motion to adjourn

Mr. Reive: Aye

Mr. Herral: Aye

Ms. Burns: Aye

