



Via Email: jbernstein@bck.com

March 11, 2024

Jeffrey M. Bernstein, Esq.
P.O. Box 205
Woodstock VT 05091

**RE: Town of Medway, Massachusetts – Summary of Analysis – Medway Grid,
LLC Battery Energy Storage System (BESS) Proposed PILOT Payment
Schedule**

Dear Mr. Bernstein,

At your request, I have reviewed the schedule of PILOT payments reflected in Section 3 of the Medway Grid, LLC Payment in Lieu of Taxes Agreement (*Discussion Draft 2.8.24*), referred to herein as the PILOT. Additionally, I have made calculations to test the proposed PILOT payments for conformance with the Massachusetts Department of Revenue (MA DOR) Informational Guideline Release (IGR) No. 21-24, which establishes a requirement that valuations related to qualifying PILOTs should be "... approximately equivalent to full and fair cash value".

I note that my work on this project to date has been to analyze the above-mentioned PILOT payment schedule and whether the payments reflected in the schedule will meet IGR standards. I also have reviewed cost estimates provided by Medway Grid and compared those cost estimates to national BESS cost data, including data from NREL (National Renewable Energy Laboratory). MA DOR may require a Uniform Standards of Professional Appraisal Practice (USPAP) appraisal and appraisal report should the Town and Medway Grid successfully complete their PILOT negotiations. At that time, and at your direction, I will complete the appraisal phase of this assignment and the appraisal report will be submitted to MA DOR for review.

My review included the following considerations:

- Calculation of the **Implied** assessed value from the payment schedule;
 - Current BESS project costs; and
 - Analysis of future valuation considerations.
- 1) The first consideration is the calculation of the **Implied** assessed value, which is simply the total payment of \$2,306,922 (\$2,237,714 PILOT + \$69,208 CPA) divided by the prevailing tax rate of \$14.40/\$1000. The result is an **Implied** assessment of **\$160,202,917¹**. Given that the PILOT payment schedule calls for 20 equal annual payments, and assuming that the tax rate will stay at the current rate², future **Implied** assessments will also be **\$160,202,917**.

¹ This is not an appraisal or an opinion of market value. The **Implied** assessment of \$160,202,917 is mathematically derived as shown and is not intended to be an opinion of value for an appraisal.

² The Implied assessment will change, up or down, depending on the tax rate in any given year.



- 2) Next is my analysis of Medway Grid's estimates of the cost to complete the BESS and how those estimates compare to national costs. Medway Grid's cost estimates are about 50% above those reported by NREL (2022). However, utility construction costs in the Northeast generally, and in Massachusetts specifically, are typically higher than average costs across the nation. In my opinion cost estimates performed by Medway Grid adequately account for current and prevailing construction conditions in Medway. Medway Grid's reported combined construction cost estimate is **\$201,237,000**.

The cost new of a utility project often represents a reasonable proxy for the full and fair cash value of the assets, but there are exceptions. For example, construction costs for new technology often exceed fair market value assessments based on market derived income and/or sales of similar projects.

Approximately 20 years ago, renewable energy generation projects such as wind and solar farms were good examples of construction costs exceeding market value. Federal and State incentives, including Federal Investment Tax Credits (ITCs) and Grants, state, and regional renewable energy certificates (RECs), and others allowed developers of these emerging technologies to move forward with their new technologies, even though recovery of the full construction costs through market rates was, at the time, not possible. In these cases, the Federal ITCs often replaced the missing revenues thus making the project financially feasible.

In this case, the BESS project will likely be eligible for a 30% ITC grant, possibly offsetting about \$60 million in construction costs, resulting in a net cost of about \$141,000,000³.

- 3) The third consideration relates to future assessments for the project. NREL indicates that BESS construction costs will decline over 40% in the next several years. Factoring in inflation, the cost new in 2035 for the Medway Grid project might be about \$153,000,000. In other words, the Medway Grid BESS will cost less to build each year and with a battery life of ten years, its assessment in 2035 may be less than \$50,000,000. At the current tax rate, the tax revenues on \$50,000,000 would be about \$720,000.

Summary

Depending on the tax rate, the PILOT's **Implied** assessment of **\$160,202,917** will remain relatively consistent through the 20-year term of the agreement. However, without the PILOT, the Town would likely need to factor in the future BESS cost reductions described above, possibly resulting in lower assessments each year.

The process of estimating future depreciation and future reductions in construction costs is speculative. However, it is reasonable to assume that depreciation and cost reductions will occur and if they do, the assessed values will reflect those changes. For these reasons, the proposed PILOT payment schedule accomplishes two goals.

³ The relationship between the net cost after ITCs and the market value is heavily influenced by the actual market income derived by the assets. The market value may be closer to the cost new if the actual income is sufficient to support the cost new without the ITCs.



- 1) With an Implied assessment of **\$160,202,917** it meets the MA DOR requirements that the PILOT should be "... approximately equivalent to full and fair cash value".
- 2) With a fixed annual payment and a relatively fixed annual assessment, the PILOT's payment schedule insulates the Town from future valuation volatility related to depreciation and to reduced constructions costs.

In my opinion, the PILOT's payment schedule sufficiently meets the MA DOR requirement for being "... approximately equivalent to full and fair cash value".

Please feel free to contact me with any further questions and let me know if you need anything further at this time.

Thank you and best regards,

Brian D. Fogg
Brian D. Fogg, LLC

