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1 PUBLIC UTILITIES COMMISSION PUBLIC HEARING

2 Wallingford, CT

3 Monday, December 29, 2008

4 6:30

5 The Public Utilities Commission held a meeting on Monday, December 29, 2008 at the  
6 Wallingford Town Hall, Room 315, Wallingford, Connecticut. The meeting was called to order  
7 at 6:30p.m.

8 PRESENT: Chairman David Gessert (“Gessert”); Commissioners Robert Beaumont  
9 (“Beaumont”) and Richard Nunn (“Nunn”); Director George Adair (“Adair”); Electric Division  
10 General Manager Richard Hendershot (“Hendershot”); Electric Division Office Manager  
11 Thomas Sullivan (“Sullivan”); Recording Secretary, Lois Pisani; and several members of the  
12 public.

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14 Nunn read the legal notice that appeared in the Record Journal on December 22, 2008, notifying  
15 the public of the date, time and place of the public hearing. The purpose of the public hearing is  
16 for the adoption of Rate 12, Power Cost Adjustment Clause, which rate, if adopted, shall become  
17 effective February 1, 2009.

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19 **1. Public Hearing for the Purpose of Adopting the Power Cost Adjustment Clause.**

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21 Gessert started the meeting by stating the reason for this meeting is that normally the PCA is  
22 adjusted in the fall and the spring and because of the figures we received after our fall change,  
23 we are necessitating a change in mid-stream. If we don’t change the PCA at the mid-point, we  
24 would continue to under-bill over the course of the winter and in the spring would have to make  
25 up revenues that were lost.

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27 Adair started by giving a background of the Wallingford Electric Division and how our energy is  
28 purchased. Adair stated that the Wallingford Electric Division of the Department of Public  
29 Utilities is a distributor of electrical energy. Wallingford does not own directly, any generation  
30 that we operate to provide the load that is represented by the Division’s customers. We purchase  
31 100% of our power requirements from CMEEC and CMEEC in turn purchases the energy on the  
32 market. The electrical generators we have in the Town of Wallingford are used as emergency  
33 generation dispatched by the Independent System Operator of New England (ISO) who oversees  
34 both the transmission grid and also regulates the power market. Neither Wallingford nor  
35 CMEEC own base load generation to provide energy. For this reason, CMEEC purchases on the  
36 market, energy on our behalf and they are well aware of our loads and are forecasting those on  
37 our behalf and securing a variety of contracts such as long-term agreements with other parties.  
38 CMEEC has a risk mitigation policy that dictates against waiting for the very lowest price  
39 because the thing you don’t want is to be exposed to the very highest price. CMEEC manages

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40 our portfolio of energy resources. CMEEC's bills for purchased power makes up about 80% of  
41 all of the expenditures for the Town of Wallingford Electric Division. The other 20% goes to the  
42 operation of the business, cash reserves for capital projects, payment of taxes and those major  
43 categories. In the past the Wallingford PUC has used its cash reserves to cushion the effects of  
44 an increase in power cost. That cannot go on forever and ultimately those costs have to be  
45 passed through to the customers. The PUC needs to adopt some changes to Rate 12 that contains  
46 the language and essentially the formula for calculating a power cost adjustment for any given  
47 period. We look ahead for a 6 month period based on a forecast for CMEEC, month-by-month,  
48 of what our anticipated power costs will be and the PCA is supposed to be set such that we  
49 collect just the right amount in our bills to be made whole on that. At the same time you are  
50 looking ahead, the PCA calculation has to look back for 6 months because for those 6 months we  
51 made an estimate, we set a PCA, and then we measure how we did. Invariably, we either slightly  
52 over-estimated or under-estimated the costs so the actuals will rarely match exactly what was  
53 forecasted. This process is called the true-up process. Under the current Rate 12, we are  
54 intending to update that number for effective date of November and May of each year. In the  
55 very beginning of December, we received from CMEEC, an updated forecast which is part of  
56 their budget process. The numbers in that differed remarkably from those we got in October.  
57 We have had several conversations with CMEEC to make sure there are procedures in place to  
58 make sure we get valid numbers.

59

60 Mr. Moran from the Record Journal asked how come the numbers differ so much from month to  
61 month.

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63 Adair explained that the explanation received from CMEEC was that they made an error on the  
64 generation portion of the forecast. They understated that number by \$3 or \$4 per megawatt hour.  
65 In addition, they failed to update the capacity costs. Adair also mentioned that we have never  
66 had this problem with miscalculation in the past with CMEEC. One of the elements in the  
67 change in the PCA is a provision that has been added so that in a case like this, we can make a  
68 mid-period calculation of the PCA. There has to be a significant change in forecast for us to  
69 change the PCA mid-period.

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71 Mr. Brodinsky asked what percentage of the existing rate is the .005? If the rate varies,  
72 approximately what percentage would this be triggered?

73

74 Beaumont stated between 5% and 8%.

75

76 Gessert stated that this meeting is not to make any rate changes. This meeting is just to allow the  
77 PUC to make mid-term changes to rate during a 6 month timeframe.

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79 Mr. Moran questioned as to when we should be caught up after the rate increase.

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81 Adair mentioned that the next PCA adjustment would be in May.

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Gessert mentioned that we have to keep in mind the amount of reserves that we need to maintain for operating costs and also to be prepared for a major catastrophe or emergencies. We can adjust the reserves a little bit to mitigate the impact on our customers, but we don't want to draw it too low.

Mr. Gross asked why the transmission costs have been escalating.

Gessert stated that ISO New England is the decider of the transmission lines. They make decisions on things such as the power line going from Middletown down to Fairfield County which totals \$1.27 billion. This cost is starting to come on line and that will increase our bills. ISO is looking also to add a lot more transmission lines for a total cost of over \$12 billion for the transmission lines.

Nunn mentioned that these charges are pass-through charges. The Division is not making extra money on the rate and how it will affect the customers. The monies that are being used from the customers are to pay the pass-through expenses. They are not profits to the Division. If anything, there will be a loss if we reduce our amount of our reserves and we are planning to do that. We are not passing through all of the expenses to the customer.

Gessert mentioned that there are efforts underway in the state of Connecticut to shut down power plants.

An overhead projection was put up outlining what is happening with the transmission costs.

Adair mentioned that CMEEC provided the information on the overhead projection. The information reflects the costs we will be incurring for the cost of transmission from 2008 through 2012. Looking forward 10 years you can see the affects of the transmission costs, increasing significantly.

Brodinsky asked what percentage of the transmission charge is reflective in the average customer's bill.

Adair stated that changes in transmission makes up about 37% of the increases we are discussing. Adair indicated that he would get back to Mr. Brodinsky with a breakdown of purchased power cost by category.

Mr. Letourneau questioned as to how CMEEC miscalculated the PCA.

Adair mentioned that CMEEC did not update the capacity numbers and understated the generation numbers. It was a breakdown in CMEEC's internal workings.

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124 Nunn asked Adair to explain the comparison of the ratepayers from the Wallingford Electric  
125 Division versus that of Northeast Utilities and/or UI.

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127 Adair stated the differences are significant. WED operates strictly for our customers and we are  
128 not serving any shareholders with dividends or other financial benefits. CMEEC is allowed and  
129 does purchase energy on a very risk-averse and market savvy fashion.

130  
131 Gessert mentioned that CMEEC didn't give any of their member's correct information (us,  
132 Norwich and Groton).

133  
134 Beaumont spoke about the NEEWS (New England East West Solution) Project wherein this  
135 project will bring more energy to the state. We are limited at this point as to how much energy  
136 can be brought into the state.

137  
138 A discussion took place on how CMEEC is paid and how their budget system works. Beaumont  
139 mentioned that Adair is on the budget and finance committee. The budget comes up before the  
140 Board of Directors of CMEEC and the WED has directors on the Board. Each of CMEEC's  
141 members has two representatives on their Board of Directors. Gessert mentioned that WED is  
142 the largest participant of CMEEC, making up 35% of their sales. All the revenue that CMEEC  
143 makes comes from their members; they don't have any other source of revenue. Wallingford is  
144 actually not a member of CMEEC, but the other 5 communities are members, becoming  
145 members in 1981. The Wallingford town attorney at that time didn't want to make the  
146 commitment to CMEEC to become a member. CMEEC allows us to have a vote just as though  
147 we are a member, but if there was something that was highly contentious, the members could call  
148 for a "members only" vote and Wallingford would be precluded from voting.

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150 Gessert mentioned that this public hearing was to allow the PUC to adjust the Power Cost  
151 Adjustment mid-phase and we have gotten into a lot of healthy discussion about the power  
152 market and what it is like. We all have to understand that whether we like it or not we have to  
153 look at what we can do to mitigate things through legislation or other means.

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156 **2. Discussion and Possible Action: Adoption of Rate 12, Power Cost Adjustment**  
157 **Clause.**

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159 Motion made by Beaumont to approve change to Rate 12. Seconded by Nunn.

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161 Votes: 3 ayes.

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163 **3. Correspondence**

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165 A copy of a letter being sent from the Wallingford Electric Division, which is in response to  
166 questions by the Wallingford Board of Education regarding the rate, increase was distributed to  
167 the commissioners.

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169 The next PUC meeting is Tuesday, January 6. The meeting for January 8 is cancelled.

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171 **4. Committee Reports**

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173 No committee reports.

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175 **5. Adjournment**

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177 Motion made by Nunn to adjourn at 8:30 p.m. Seconded by Beaumont.

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179 Votes: 3 ayes.

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182 Respectfully submitted,

Respectfully submitted,

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186 Lois Pisani  
187 Recording Secretary to PUC

Richard Nunn  
PUC Secretary

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