

1 **DRAFT**

2 **SPECIAL MEETING**

3 Public Utilities Commission

4 Wallingford Electric Division

5 100 John Street

6 Friday, February 15, 2019

7 2:00 p.m.

8 **PUC BUDGET WORKSHOP**

9 **MINUTES**

TOWN OF
WALLINGFORD

FEB 21 2019

DEPARTMENT OF
PUBLIC UTILITIES

10

11 **PRESENT:** Chair Robert Beaumont; Commissioners Patrick Birney (via telephone) and Joel
12 Rinebold; Director Richard Hendershot; Electric Division General Manager Tony Buccheri;
13 Electric Division Office Manager Tom Sullivan; Water and Sewer Divisions General Manager Neil
14 Amwake; Water and Sewer Divisions Office Manager Bill Phelan; Recording Secretary Cynthia
15 Kleist

16 Chair Beaumont called the Meeting to order at 2:08 p.m. and the Pledge of Allegiance was
17 recited.

18 **Water Division Budget Discussion**

19 Mr. Hendershot began with the Water Division budget. He noted this budget is not terribly
20 different and has no big initiatives or sudden changes in costs, expenditures or revenues, just a
21 continuation of what has been occurring in the past.

22 Mr. Rinebold noted that usage and sales were down, but the Division was maintaining flat rates,
23 last year's rates, and asked how this was possible. Mr. Phelan explained that both Divisions
24 recalculate a minimum cash reserve number which is the amount of cash established and set
25 aside from the Division's operating budgets. He said what is available beyond this minimum, is
26 also calculated for rate stabilization and future budgets. Mr. Phelan pointed out there is
27 sufficient cash available to support both budgets for not only next year, but potentially the
28 following year, depending upon the level of capital expenditures and operating expenses in the
29 future years. Mr. Phelan said he has looked at what is available for rate stabilization and in both
30 Divisions; there is the funding and dollars available to support the budgets.

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1 Mr. Rinebold asked if there was any concern that too much of the surplus was being used
2 beyond what was required. He asked the prediction for some sort of action, i.e., rate increase,
3 or to decrease costs. He said it appeared as if the Division is getting close to a rate change but
4 not for this year. Mr. Phelan explained he is projecting for the Water Division, available cash for
5 future years, excluding this year, is \$2 million for rate stabilization. He noted that depending
6 upon what the Division's future capital needs are, this \$2 million can be spent quickly, but
7 emphasized he didn't see this in the five-year capital plan for the Water Division. Mr. Phelan
8 noted that in the Sewer Division, there is a cost of service study that will be performed and will
9 address this once there is a long-term financial and expenditure projection. Mr. Rinebold asked
10 if there would be any reversal in the decline in revenues and sales, noting everything appears
11 slow and steady. Mr. Amwake noted that over the past three weeks, daily water production
12 was running approximately ¼ of a million gallons higher than expected for this time of year.

13 He said there he still sees a decline but believes the slope will be less. Mr. Hendershot said he
14 believes we are getting close to theoretical minimum and said he wasn't aware of any major
15 water and sewer customers coming into town. Mr. Rinebold asked if the diversion could be
16 used for the sale of water, i.e., the interconnection. Mr. Amwake explained the interconnection
17 goes both ways, noting the interconnection with The Regional Water Authority is for emergency
18 purposes only. He said the Division is very constrained on when and how this can be used. He
19 said there are no other interconnections.

20 Mr. Hendershot said he pointed out in his memo, that the Water Division cash position as the
21 end of June was approximately \$4 million over minimum, and in the Sewer Division, it was
22 slightly less than \$3 million over minimum. Mr. Rinebold said he thought the budget was well-
23 developed. Mr. Hendershot noted that the cost of service study will tell us before the end of the
24 upcoming fiscal year, what sewer rates should be going forward inclusive of the phosphorus
25 project. Mr. Birney on page 5-10, Account ending #0673, asked if this was a general operating
26 expense vs. a capital expense. He asked why we would have these type of annualized
27 operating expenses year over year and why was there such a big dollar amount in the current
28 fiscal year that won't necessarily be repeated if it's an operating expense in ongoing
29 maintenance of infrastructure.

30 Mr. Amwake explained that some of the projects listed were due to water main and hydrant
31 breaks that happened to occur in the FY 18/19 budget i.e. North Street; the Cheshire Road
32 hydrant, N. Colony Rd, a State road, and was a very expensive pavement repair because we
33 had to meet DOT standards; insulation along the bridge above I-91 at a cost of \$90,000, and
34 some valves in the inventory which were increased by a few. Mr. Amwake noted this is still well-
35 funded and tends to be a labor and benefits account along with some inventory and materials.
36 He said he looks at the inventory levels and feels comfortable going into the next fiscal year.

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1 Mr. Birney noted there was discussion about a rate study similar to what was done in Electric.
2 He asked if this rate study because of the inter-relationship between Water and Sewer, would
3 include analytics on the water rate. Mr. Amwake said no. Mr. Birney said if this is something
4 that should be thought about and spoke about the downward revenue curve, pointing out it
5 appears there will be a loss in the upcoming budget. He wondered if the Division needed an
6 outside consultant to educate us and help us sell to the public what is likely to be some sort of
7 rate increase in the future. Mr. Hendershot said what is being done in the Sewer Division is
8 because of the significant step function and addition and complexity brought on by the plant
9 upgrades brought on because of the phosphorus projects which he pointed out was a lot of
10 debt service. He said general rate changes due to the passage of time have always been
11 handled in-house by Water and Sewer staff, but with no meaningful changes in structure,
12 makeup and the finances which drive the Water Division, we haven't seen the need to have
13 someone advise the Division.

14 Mr. Hendershot said , combined with the generous cash position which is the result of the
15 Division in the past collecting capital costs ahead of time and then building the project, this is
16 not something the Division wants to do going forward. He said the Division is working down a
17 cash position and when it gets closer to the minimum, it then will be time to look at the rates
18 and to look at regular borrowing and the depreciation process. Mr. Hendershot noted the Water
19 Division is not at that point. Mr. Amwake said the Division is not opposed to bringing in an
20 outside consultant, but will use the Sewer Division Cost of Service Study as bit of a test. He
21 noted this cost of service study will be on Tuesday's PUC agenda as a budget amendment.

22 Mr. Amwake said one of the products is that the consultant will give the Division an Excel file to
23 do future scenario analyses on our own. He said if this works out with the consultant this can
24 be rolled forward in a future fiscal year for the Water Division. Mr. Birney said the sky isn't
25 falling but there is an issue here and is echoed each year that revenue is going down but fixed
26 costs are staying the same. He said he remembers former Director George Adair stating that
27 instead of using cash on hand for capital, the Division would continue to deteriorate the cash
28 position. He said he also is hearing that if the rate expert works out, we will think about doing
29 this with the Water Division. He said this is how this has been done historically.

30 Mr. Hendershot pointed out there is no proposal to borrow, but to continue to use cash to make
31 up the shortfall between revenues and total expenditures, both operating and capital. He said in
32 the upcoming year that proposed use is \$475,000, which is \$150,000 less use of cash than the
33 current budget. He said this is not sustainable, but at that rate it would imply we have four, five
34 or six years before minimum is reached. Mr. Hendershot stated he is not proposing to wait this
35 long, but didn't believe it was necessary to burden staff with a rate study on the heels of the
36 phosphorus project do and this rate study right away in the next fiscal year. Mr. Hendershot
37 said he believes the next few years it would be time to study water rates and propose a general
38 change of so many percent across the board. Mr. Birney noted he was hearing rigidity.

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1 Chair Beaumont noted that on page 2, that "the Water Division was predicting a slight increase
2 in basic service fees". He asked if there was an increase in customers and asked if it were
3 primarily residential. Mr. Amwake said this was a combination of both. Mr. Phelan explained this
4 was a three-year average and that the Division looks at the last three years and use this
5 average, increase or decrease, to project next year's number of customers. Chair Beaumont
6 said this was the opposite of what he expected, considering the downward slope that he
7 continues to see. Chair Beaumont asked about the safe drinking water assessment and
8 wondered what the DPH (Department of Public Health), used the monies for. Mr. Amwake
9 noted the money doesn't go to DPH, but goes to the State and the thought is that the State will
10 give it to the DPH to maintain primacy, so the State can enforce EPA regulations at the State
11 level, instead of having direct oversight by the EPA.

12 Chair Beaumont asked about operations and labor expenses #601 – watershed patrols. He
13 asked if the number of patrols were being increased, and if so, why. Mr. Phelan said he didn't
14 believe the number of patrols was being increased, but what is being done, is that last year, the
15 process began of allocating labor dollars in the year that they are actually incurred vs. a prior
16 year average began. Mr. Phelan said this is one of the big reasons for some of the fluctuations
17 in these accounts. Mr. Phelan said an educated guess is being made on where we believe our
18 labor dollars will be spent next fiscal year. He said we are not 100% sure, and as was done in
19 the Electric Division, he may have to come back and move labor dollars from one account to
20 another.

21 On page 3, Chair Beaumont asked how often there needs to be a redevelopment of the wells.
22 Mr. Amwake said this depends on how often they are used. He said a measurement is taken
23 each month and is watched. He noted the redevelopment could be eight to ten years out. Mr.
24 Amwake said the redevelopment is akin to backwashing. Chair Beaumont noted page 4,
25 "Engineering and Miscellaneous Expense" significant increase. Mr. Phelan said this is labor
26 dollars and additional engineering staff has been assigned to this account. Mr. Phelan noted
27 that in account #673, there is a significant reduction and part of the \$300,000 reduction is a big
28 piece of labor. Chair Beaumont noted on page 8, "water treatment plant structures additional
29 funding for new fuel storage tank". He pointed out there is an existing underground tank and
30 asked about the capacity. Mr. Amwake said there is a 10,000 gallon existing underground
31 storage tank at Pistapaug Reservoir and a new 10,000 gallon above ground tank. He said there
32 is no indication of a leak, but the tank has been in service for 28 years.

33 Chair Beaumont commented under meters, "radio reads" was a good idea and building access
34 wouldn't be required. Mr. Amwake noted the Electric Division does the meter reading and he
35 receives reports from them. Chair Beaumont noted on the bottom of page 9, "power
36 equipment" John Deere loader, and asked if the equipment had to be a John Deere. Mr.
37 Amwake pointed out the Division prefers John Deere and has three of them. From the operator
38 and maintenance perspective, it is better to have similar equipment.

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1 **End of Water Division budget discussion at 2:36 p.m.**

2 **Sewer Division Budget**

3 Mr. Hendershot said this budget makes no reference or allotment to the impending phosphorus
4 project because this project will be 100% financed from outside of the scope of this budget. He
5 said once the construction contract is in place and approved by DEEP, they will write the checks
6 to the contractor and when the project is finished, the grant monies will be applied to what has
7 been paid so far, the balance is recognized as the 2% loan the Town now has from DEEP, and
8 that debt service will be visited upon the first budget (2022/2023). He said he didn't believe this
9 would happen before the fiscal end of 2022. Mr. Hendershot said the rate study will take in
10 current rates; current costs and give us one scenario of how we address this.

11 Mr. Hendershot said this form of loan has the highest cost in the first year, with costs going
12 down every year from the first year. Mr. Phelan said this is typical of a bonded or financed type
13 of activity. Mr. Amwake noted the principle will remain the same; the only thing that will
14 change every year is the interest. Mr. Hendershot said this budget is steady with a reasonable
15 amount of capital, pay the bills and take a modest amount from cash balance to see the
16 Division through. Mr. Hendershot noted part of the long-range financial plan in Sewer is to
17 acknowledge and utilize the available cash at the time to shield rate payers from 100% impact
18 of the debt service. Mr. Hendershot also noted that none of the budgets include changes in the
19 labor rates because none of the labor contracts are known at this time.

20 Mr. Rinebold asked if on Sewer, he noted there is no storage and no real ability to do a load
21 shift. Mr. Amwake said this was correct. Mr. Hendershot explained that because the sewer plant
22 is on a continuous process, nothing can be turned off discretely. Mr. Rinebold noted that
23 \$40,000 is being sought to purchase RBC drives and bearings. He asked if this could be reused
24 even with the rebuilt. Mr. Amwake noted the RBC's will not be touched, but we traditionally do
25 two drives and bearings each year. During O&M inspection, feel it is prudent to do a third. He
26 said anything being touched; no capital money will be put into it. On page 4-8, Mr. Rinebold
27 asked about UV disinfectant. Mr. Amwake said this is needed now because the new UV's won't
28 come on board until April 2022.

29 Mr. Rinebold asked about the sludge on page 3-8. He asked about the index. Mr. Phelan said
30 the overall increase is 2.48% over last year. He said there is some increase projected for next
31 year, but it is not a huge increase. Mr. Phelan explained that all of the funding in the operating
32 budget, goes back into retained earnings once the fiscal year is completed. He said there is no
33 carry over of available funding from the prior year in operating. Mr. Phelan said the sludge
34 hauling and handling budget has only gone over budget once since he has been with the
35 Division. He said he didn't recall why but noted the Division has been consistent in determining
36 the sludge cost. Mr. Phelan said the number will be slightly larger probably around \$8,000.

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1 Chair Beaumont asked about communication equipment, noting there was \$365,000 that was
2 allocated in FY 12/13 and asked how many years this figure can be brought forward. Mr. Phelan
3 explained there is a three-year limitation if there has been no expenditures from this account.
4 He said if there is an expenditure, the money will continue to be carried forward until the
5 project is completed. He said if there is three years without an expenditure, the money goes
6 away. Chair Beaumont asked on page 2 about the sewer rate, noting the 525 for 100 cubic feet
7 has remained the same for the past six years. Mr. Phelan said this was correct. Mr. Hendershot
8 said our combined water/sewer rates are about middle of the road when compared across the
9 state. Mr. Phelan commented on water/sewer budget noting there are a number of outstanding
10 items of which figures have not been received particularly on the town side: proportionate
11 charges, investments, insurance, interest rates, etc. He said the numbers will change but have
12 placeholders.

13 Regarding nitrogen credits, Mr. Phelan noted he doesn't have the actual credit charge for this
14 particular account at this point. Mr. Amwake said we know the number of credits we will have
15 to purchase for the calendar year, but don't know the cost per credit. He said the Division went
16 conservative with this. Mr. Hendershot said this is up by \$225,000 and the total use of cash for
17 the Sewer Division was \$298,000. He said this is because of nitrogen.

18 **Sewer Divisions budget workshop ends at 2:55 p.m.**

19 **Electric Division Budget Workshop began at 2:56 p.m.**

20 Mr. Hendershot said the electric budget is more of the same in that this budget looks a lot like
21 previous budgets. He noted for legitimate reasons, the finances are running differently where
22 money is being put into retained earnings, rather than taking it out. Mr. Hendershot said it
23 looks like a large sum is projected to go into retained earnings, but pointed out there is no labor
24 increases in this budget and will move the number down and also the Division has been taking
25 money out of retained earnings at a robust clip the past 18 months and will continue to do so
26 for an additional six months.

27 Mr. Hendershot told the PUC this budget is the fourth year of four years' worth of rates and
28 there is no money for a new study. He said it appears the rates are more than sufficient to do
29 what they need to do and there is no need to jump right into a fresh study in 19/20. He said
30 there will probably be a study in 20/21. Mr. Hendershot noted the Division may be in the
31 position where the rate structure is working well enough and all that will be needed are gentle
32 percentage changes. He said a lot of work has been done over the past two studies to change
33 the structure of the rates. Mr. Hendershot robustly defended what he called the relatively high
34 customer charges. He noted that customers that use 200 KWh's a month, have the same
35 expectations when they call the Division as the customer who uses 2,000 KWh's a month, so
36 they ought to pay costs related to this. He pointed out the customer charges are the second
37 highest in the State. He explained those companies that have a lower customer charge are

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1 reflected in the rates somewhere else. Mr. Hendershot noted there were some personnel
2 changes in electric. He referred to page 2 of his memorandum and said there is a net decrease
3 of 1 employee between replacing a full-time Jr. Accountant with a part-time Account Clerk and
4 not filling a vacant apprentice electrician position when that person transferred into a vacant
5 lineman position as an apprentice lineman. Mr. Hendershot said this budget reflects adding an
6 additional engineer to address increasing NPCC requirements and increasing power quality
7 issues to more digital load on the system. He said customers are less tolerant of problems on
8 CATV because it is the provider of digital television, data and voice. Mr. Hendershot also added
9 that technical issues constantly grow.

10 Mr. Birney asked about the rate study for electric and wondered if there was a chance a rate
11 study wouldn't be done following the end of the next fiscal year which was the end of the rate
12 study horizon. He also asked if rate studies are historically done every four years. Mr.
13 Hendershot explained that typically the studies are four years in duration, and noted that two
14 out of four times, we have skipped a year at the end. Chair Beaumont said this has been done
15 and the last time around was a five-year period. Mr. Hendershot noted that in his 15-year
16 tenure, the rate study has been done three times.

17 Mr. Rinebold asked about the operating budget, CMEEC and the dispute resolution, noting the
18 projection of a \$33,900 decrease. He asked how much of this is legal vs. part of the settlement.
19 Mr. Hendershot said this is everything else is going down \$33,900 adder backing out the
20 unusual legal costs and wholesale power. He said for all intents and purposes this is a flat
21 operating budget. Mr. Hendershot referenced account #923, noting that so far in legal and
22 consultant expenditures, and what remains to be done and the possibility something may go
23 over to the end of June, he is going to put \$75,000 back in account #923 that the draft budget
24 doesn't have in it. Mr. Hendershot said a ruling is expected this fiscal year. Mr. Birney said he
25 has been practicing law for 20 years and these are contracts and the idea that this is dragging
26 on forever is like the full employment of this arbitrator act. Mr. Birney said it was infuriating to
27 him that this keeps dragging along and there is a strong likelihood we won't have an
28 opportunity to confirm this arbitration until next calendar year.

29 Mr. Birney said we cannot allow our contracts to go to arbitration; it is a waste of money and a
30 waste of time. He emphasized the judicial system is not perfect, but it works. He said this
31 arbitration did not work for an entire host of reasons. He said these ongoing interim rulings only
32 give this Arbitrator a paycheck and expressed his frustration. Chair Beaumont said he agreed
33 with Mr. Birney and noted this is a problem. Mr. Rinebold said he also agreed with Mr. Birney.

34 Mr. Rinebold noted that on the legal side, it appears an adjustment will have to be made on the
35 actual award of penalty sides and it sounds as if we won't know for a while. Mr. Hendershot
36 discussed a scenario regarding possibly receiving a check after the arbitration was completed.
37 Mr. Sullivan noted that check because it was for prior periods would go to non-operating

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1 income. Mr. Hendershot pointed out the Division has never amended a budget to show that our
2 income is going to be more than what we thought it was going to be. He said this would be
3 income and will increase the Division's above minimum cash position and be available for future
4 rate stabilizations. Mr. Phelan pointed out the current year's portion would be passed through to
5 the customer because it is part of purchased power.

6 Mr. Hendershot said he has reminded Carter/English and the Law Dept. that the Division still
7 doesn't have a current and to-date agreement with CMEEC regarding the handling of NYPA. He
8 said the Division continues to receive what they calculate to be our allocation and they do so at
9 a much lower handling rate. Mr. Hendershot said the Division is seeing that the allocation has
10 changed and it is not as it should be; the way they divide it up inside CT is different than the
11 way they calculate what CT's share is. Mr. Hendershot said as a result, residential load is
12 harmed and non-residential load is helped. Mr. Hendershot said we are only harmed a bit but it
13 adds up over time. He said at the Town Attorney's advice, he will be adding \$50,000 in Account
14 #557 – other purchased power expenses, which he said will create a more than adequate
15 amount of money to pursue this issue in fiscal 19/20. He said this has a net present value of
16 hundreds of thousands of dollars out 20 years.

17 Chair Beaumont asked Mr. Buccheri about a squirt boom truck on page 2 of the budget. Mr.
18 Buccheri explained this is a truck without outriggers to use for services. He said the main
19 purpose is for the sub-station electricians to be able to reach equipment in the sub-station
20 yards. He said during a storm, this truck can be brought out to immediately hang services.
21 Chair Beaumont asked about distribution transformers and wondered how much was used in
22 the last few years. Mr. Buccheri noted that last year, the Division went in with zero dollars in
23 that budget. Chair Beaumont noted Account #408 – taxes, pointing out almost an 11%
24 increase. Mr. Sullivan said there is an increase in property taxes but noted this was a small part
25 of that. He said this is primarily coming down to a change in the taxable portion of the
26 purchased power changes. Chair Beaumont asked what part of the purchased power cost is
27 taxed. Mr. Sullivan said the transmission and distribution charges are taxed.

28 Chair Beaumont noted that in account #435, transfers out of the general fund, that the figure
29 was \$90,000 less than the previous year due to less KWh sales; on page 5, Employee Pensions
30 & Benefits, Chair Beaumont pointed out there was a \$44,000 decrease. Mr. Hendershot pointed
31 out the Town has a new pension plan in place for a couple of units; including managers and
32 clerical. He said all new employees are falling under a new structure which is less expensive for
33 the Town. He said he believes Fire has Health Savings Accounts as the default health insurance
34 situation and if employees want to stay on the PPO, because of the cost structure for them to
35 do so, the Town saves money on every employee who elects to do this.

36 Chair Beaumont asked about the status of the underground conduit work at Ashlar Village. Mr.
37 Buccheri said he has reached out to Ashlar Village a few times and this project has progressed

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1 forward. He said at the time they didn't have the funding, but have now secured funding to get
2 surveying and for Attorney support for the easement language. He said he never hears from
3 them unless he contacts them but will reach out to them again. He said there was work that did
4 start, i.e., road crossings with conduits underneath. Mr. Buccheri said what is there is direct
5 bury. Mr. Hendershot noted this isn't Ashlar Villages only feed, stating there is another source
6 that can supply Ashlar Village.

7 **End of Electric Division Budget Workshop at 3:31 p.m**

8 **ADJOURNMENT**

9 Mr. Birney made a motion to adjourn the PUC Budget Workshop at 3:32 p.m. Mr. Rinebold
10 seconded the motion which passed unanimously.

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12 Respectfully submitted,

Respectfully submitted,

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14 Cynthia A. Kleist

Joel Rinebold

15 Recording Secretary

Secretary

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