APPROVED 4/2/24

ENERGY RISK MANAGEMENT OVERSIGHT COMMITTEE (the "ERMOC")

PURCHASED POWER WORKSHOP

PUBLIC UTILITIES COMMISSION

WALLINGFORD HUBCAP

128 CENTER STREET

WALLINGFORD, CT 06492

Thursday, March 21, 2024

10:00 A.M.

MINUTES

PRESENT: Chairman Robert Beaumont; Commissioners Joel Rinebold and Laurence Zabrowski; Director Richard Hendershot; Electric Division General Manager Jake Arborio; Electric Division Business Office Manager Marianne Dill; Electric Division Assistant Office Manager Jeff Tierney; Craig Kieny – Energy Initiatives; Jesse Fitzmaurice – Energy New England; Ken Stambler – Energy New England; Mayor Vincent Cervoni; Comptroller Tim Sena and Executive Secretary Michelle Bracale

Absent – None

Members of the Public – None

Mr. Beaumont called the Meeting to order at 10:00 A.M., and the pledge of Allegiance was recited.

1. **Pledge of Allegiance**

2. **Approval of the December 21, 2023 ERMOC Meeting Minutes**

Made by: Stambler
Seconded by: Rinebold
Votes: 12 ayes

Mr. Hendershot suggested that everyone in the meeting begin by introducing themselves as not everyone present knew each other. Each attendee introduced themselves and explained their position.

3. **Power Supply Metrics – CK**

Mr. Kieny went over page 2 of his slide noting that the Load was 5.4% below budget. The load variances vs. budget are likely due to weather variations. He also noted that when we talk about "load", it does not include NuCor.

He also noted that the Total Power Cost $/MWh was 4.2% over budget. Fixed costs such as Forward Capacity Market charges, transmission and Mystic (to some degree), do not decrease the same as load does.

The January – June budged data was prepared in January 2022. July – December budgeted data was prepared in January 2023. Hedges for November 2022 – June 2023 were put in place after the FY 2023 budget was prepared, which explains why the budgeted hedge positions for January – June are noticeably lower than actuals.

Mr. Rinebold questioned what our contingency plan is and how are we prepared should we have colder than normal winters and warmer than normal summers?

Mr. Kieny replied that once he begins to discuss the Hedging Policy, that would be a good time to answer that.

Mr. Zabrowski questioned how we would compare to other utilities?

Mr. Kieny responded that our rates are lower, our process for procuring resources is very well documented, and we are very disciplined in our policies.

Mr. Fitzmaurice added that ENE represents over 20 municipalities and Wallingford is on the lowest end from a rate perspective – some of which has to do with the Hedging Policy, but some of those municipalities are procuring up to 50% of their portfolios with renewables right now which are more expensive than the standard block power that Wallingford purchases.

Mr. Zabrowski questioned if Mr. Kieny has any suggestions for us to do in the future?

Mr. Kieny stated that we may want to consider going out longer. Our policy currently limits our ability to do longer term contracts.

Mr. Zabrowski then asked how long he would recommend we go out?

Mr. Kieny said that it depends on what we're doing. If we were looking into a solar project, they require 25 years. He added that we really don't need to look at longer term deals until the discussion is had on renewables.

Mr. Zabrowski stated the perspective is that we want to supply our customers with the lowest rate possible, so with that philosophy, we are on the right track.

Mr. Stambler noted that because the methodology we use for most of our purchases of power are at 5%, or 10% of a given calendar year, it doesn't have a large impact on overall costs, and results in more stable rates.

Mr. Beaumont agreed that what we have been doing is working.

Mr. Hendershot added that as an entity, we have steered away from unit specific purchases so we are not tied to our energy coming from any one resource. We buy from the market and put the risk on the other Counterparty. Wallingford Electric, as we begin to speak with potential new Counterparties, relies on the Town's credit rating as we are not large enough to have our own credit rating. That goes back to our methodology. People ask "where does your power come from?" Honestly, we don't know. It flows off the high voltage line. ISO makes sure there is enough every hour of the day.

4. Transactions Since December 21, 2023 Meeting - CK

Mr. Kieny stated that a procurement was conducted on March 15, 2024 for 10% of 2025, 2026 and 2028 and 5% of 2027 annual energy requirements. He discussed with the group that these prices are the lowest we've seen in a couple of years.

Mr. Hendershot added that for mathematics, the simple rule is that for these prices, if you move the decimal point one to the left, that becomes cents per kilowatt hour. That is just for the energy.

5. Current Hedge Position Summary - CK

Mr. Kieny then went over slides 4 - 7 describing our current hedged position for 2024 – 2028 vs. Hedging Policy for Quarters 1 – 4, 2024. Some discussion ensued regarding spot market pricing.

He explained that you can buy blocks of energy, which means you're buying the same amount every hour for the time period specified, or you can buy load following, which means you're buying a percent of an actual load.

Mr. Beaumont added that, generally speaking, you're going to pay a premium for load following, but as a general rule, if the premium is 6% or more, we do not buy load following.

Mr. Stambler stated that a few of his customers, within the past two years have paid anywhere from 18% - 24% premium for load following. This past winter, it was 8%, so he believes it is somewhere between 6% and 7% now.

Mr. Kieny stated that it is a good hedge, but you're paying that premium on every MWh you buy, not just the amount that's increased.

He also stated that it would be a good idea to go back now to ask the Counterparties what the premium for load following would be for us?

Mr. Rinebold asked Mr. Kieny what his thoughts were on the reliability of some of our blocks? At what point would we be subject to a force majeure of those power facilities? Even with the ISO fines, what about the deliverability of our blocks both firm and the load following?

Mr. Fitzmaurice stated that the risk for the hedge portion of the portfolio is completely on the supplier. It's firm, so if you're 90% hedged, they're responsible for that. In regards to reliability, it is more on the supplier health of a default.

Mr. Rinebold again asked about a force majeure?

Mr. Stambler responded that larger corporations will post credit to guarantee should a company go out of business. We have that as a back up plan to handle any sort of losses that may occur.

Mr. Zabrowski questioned if there is something in writing that if this particular event occurs, we are not responsible?

Mr. Beaumont stated that it doesn't make any difference where the energy is coming from, they have committed to provide the energy, so the ownness falls on the Counterparty.

Mr. Rinebold understood that the Counterparty would then pay a penalty. We would get the cash, but may not have the megawatt hours. He reiterated that the force majeure provisions are always there, but we have never seen it used.

Mr. Stambler added that going forward, we're trying to get more investment grade Counterparties that are able to post credit so we're more comfortable knowing there is financial backing behind them.

Mr. Kieny went on to describe the slides stating our current hedged position vs. the Hedging Policy.

Mr. Hendershot explained a little more in detail in regards to the charts what we look at and what we pay specific attention to (especially staying inside the bandwidth).

Mr. Beaumont added that if, for some reason, it is recommended that we go outside of the bandwidth, it would have to go to the PUC for approval first and ask for permission to deviate from the policy.

More discussion ensued in regards to the last few years of hedging and purchases as Mr. Zabrowski was curious as to the recent history of what we have been doing as he has only been on the Commission since 2023.

There was some discussion in regards to NYPA and how it is listed on slide 9. Mr. Hendershot explained that they are not a bidder. By virtue of being a municipal electric utility in a state that borders New York, we have rights based on the size of our residential customer count to a certain amount of energy from NYPA projects on the St. Lawrence and Niagara Rivers. The order of that is 6% of our load. It is inexpensive energy and better than anything else we are buying.

Mr. Rinebold questioned how long that order remains in effect?

Mr. Hendershot stated it is about 20 years. He believes it is a Federal Statute.

There was some discussion in regards to CMEEC and what role they have as well.

Mr. Rinebold then asked if there is any more or less confidence in buying from some of these direct energy providers, i.e. Shell or BP versus some of these other financial aggregators who don't make energy?

Mr. Stambler stated that Shell and BP for example, don't have physical assets in our region, they are energy trading shops whereas Morgan Stanley or Citibank have an energy trading division within their company.

There was more discussion in regards to thoughts on this topic.

6. Compliance with Hedging Policy - CK

Mr. Kieny explained that there are no violations of the minimum and maximum hedge parameters for 2023 – 2028. He added that if WED resources exceed load by 5% or more in any month, ENE must provide an explanation on the cause. (There have been no occurrences in the past 12 months).

He went on to explain that the Hedging Policy requires purchases from specific suppliers to be no more than 35% of total load in a given 12-month period.

Mr. Kieny stated that Shell has been consistently lower than other suppliers and that we are trying to add some Counterparties to allow us more diversity and options. Mr. Hendershot expanded on that, letting the group know of specific companies we have been in talks with but do not yet have agreements with.

Mr. Zabrowski questioned the number of suppliers and do we think that number is sufficient?

Mr. Stambler stated that his feeling is that having five active trading partners is probably a good number to have.

Mr. Kieny noted that the PUC Commission approved a waiver of Section 3.4 of the Hedging Policy and the nature of the 12-month rolling calculation allowing a slightly larger hedge to one supplier. Shell supplied slightly more than 35% of native load on a rolling 12-month basis for December 2021 – May 2023, with the exception of June 2022 and will likely exceed the 35% threshold through August 2024.

Mr. Rinebold questioned if we should be refining our Hedging Policy with different providers and different percentages?
Mr. Hendershot answered that our philosophy is that we don't want to beat the market, we want to bring the market to our customers and not lose money. He also added that the structure of starting far enough in advance and added layer by layer approach make the most sense to us.

7. **Forward Price Curve – CK and ENE**

Mr. Kieny went over the On-Peak Energy Forward Price Curve with the group noting the estimated on-peak forward energy prices.

Mr. Rinebold questioned that there is a fairly high level of confidence in natural gas supply?

Mr. Stambler responded that in the wintertime, prices are significantly higher than any other month of the year. All driven by the fact that the region has to rely on LNG for incremental supply gas as well as limited regional pipeline capacity.

Mr. Rinebold added that the Mystic Cost of Service Agreement should be terminated in May.

Mr. Stambler added that the facility will continue to be operational because if the pipeline's themselves are gone, you'll have situations in Boston and the North Shore that will have major problems on cold days because of not getting enough gas past the point of the pipe.

Mr. Fitzmaurice stated that Eversource and National Grid are in negotiations to keep the Everitt terminal at Mystic. He mentioned that the power plant in Mystic that's been under a cost of service agreement for the past few years, we have been paying a premium out of pocket to keep that around for reliability. It is retiring in May and he believes the terminal is going to stay because the gas utilities need it for vaporization and various ancillary services to keep the pipelines flowing.

Mr. Rinebold then questioned what the thought was in regards to an open season at FERC, i.e. new pipeline, transmission capability in going through the federal permitting process with Open Season regulated by FERC?

Mr. Stambler responded that New York went through that a few years back when trying to put in gas fired power plants. He said that it got bogged down by every environmental group out there. He stated that especially with the emphasis to get off fossil fuels, he does not see that happening.

Mr. Beaumont questioned the capacity of natural gas – with the transmission lines that are coming in, is there more potential capacity if they increase the pressure in the pipeline?

Mr. Stambler stated that he does not have any firsthand knowledge of that.

Mr. Fitzmaurice stated that Algonquin had expanded capacity a few years ago, but he does not believe there is any incremental capacity increases in the pipeline.

Mr. Beaumont then asked if anyone has heard anything about doing away with the Jones Act? He explained that, for those who don't know, it precludes any non US tankers from bringing oil, gas, etc. from one U.S. port to another.

Mr. Fitzmaurice added that when the war broke out in the Ukraine, when there was a gas crisis and the highest forward curve, the ships were being sent to Europe and New England was buying from Trinidad and Tobago. And New England is still buying from Trinidad.

Mr. Hendershot replied that it is because the US does not have any LNG ships.

8. Next Procurement Timing and Strategy – CK and ENE

Mr. Kieny went on to the last slide stating that we are not required to purchase anything until Quarter 1 of 2026, however at current pricing levels, we are considering another purchase in Quarter 2 of 2024.

Mr. Hendershot updated the group to let them know that he receives a weekly report from ENE which has charts and spreadsheets that shows the impact and changes on the forward curves, as well as how much more or less our open position costs than the previous week. He, along with Mr. Kieny and Mr. Fitzmaurice watches those reports and when any of them notice that it may be a good time to make a purchase, they get in contact to discuss.

Mr. Fitzmaurice went over his presentation on the Market Update with the group.

He noted the following:

This winter on average was slightly cooler than last winter by less than 0.4 degrees Fahrenheit.

Day ahead LMP prices this winter were $48.40 vs. $78.00 last winter.

Natural Gas Prices – Henry Hub was below $2.00/MMBtu. Heading into last winter, natural gas prices were significantly higher as concerns around LNG supplies worldwide impacted prices.

Natural Gas Inventory – In the US, inventory levels are 37% above the five-year range. It is one of the highest inventory levels ever heading into the summer cooling season.

Power Prices – prices are back down below $57/MWh for around the clock power and on-peak power is in the low $60's.

Forward Curve – Winter prices are significantly down. Most of the variability is in December – March.

9. Status of Potential Battery Storage Projects – RH

Mr. Arborio stated that there are two battery storage facilities looking to potentially build in town: One is adjacent to our North Wallingford sub-station and the other on the Allnex property. The Allnex property site is a little further along. There is a draft agreement that is in the works. The other is not that far along as of yet. In regards to sizing, they are both looking at two (2) 4.99 megawatt batteries hooked to our distribution system. With Delorean, they would be utilizing the two feeds that feed Allnex; North Wallingford would be using the legacy Bristol Myers feed along with another yet to be selected. There is talk about the possibility of another battery storage facility by Blue Hills Farm which is considerably larger. That one is in the ISO queue and could be in the 300 megawatt range. It will hook up to Eversource transmission.

Mr. Rinebold questioned if the first two described are wholesale projects?

Mr. Hendershot answered that they are not our projects and there will be an agreement in place for each of them. The financial aspect, as they present it, is they propose a shared savings where they will discharge the battery such as to lower our monthly transmission bill and our annual capacity. Then, we will split the savings with them.

Mr. Rinebold stated that he likes the concept, however, we need to be very careful. He asked if the two smaller ones will be customers of ours.

Mr. Arborio stated they would be.

10. Meeting Frequency – Consider formalizing meeting three times per year – RH

Mr. Hendershot questioned the Commissioners on how they would feel about meeting three times per year. Our current policy states that we meet four times per year but we feel three times could work just fine. Mr. Beaumont and Mr. Rinebold both stated they would be fine with it. Mr. Hendershot stated that before the next quarterly meeting, he will contact the Commissioners ahead of time to get the policy revisions completed and approved.

11. Purchased Power Workshop – How we Hedge

Mr. Kieny began by going over the Energy Risk Management Policy which was developed by ACES Power Marketing for WED as WED was exiting CMEEC. It provides a structure for WED to manage risks associated with purchasing energy and capacity to meet the needs of its customers. The roles and responsibilities of various positions are the PUC, ERMOC (Energy Risk Management Oversight Committee), Director of Public Utilities, Wholesale Power Procurement Manager, Auditing Consultant and Risk Management Agent.

The Hedging Policy is a subset of the Energy Risk Management Policy, which establishes minimum and maximum hedge positions by quarter for a 5 year period (current year + 4).

Mr. Zabrowski questioned the Hedging Policy – Section 5.1 – Table 1. The policy does not match page 5 of the slide provided. Mr. Kieny looked a little more into it and stated that year one – four in the left hand column should not be shaded. He stated that the policies are correct, but the table (which is Mr. Kieny's interpretation of the policy) needs to be revised to match the policy.

Mr. Kieny then went on to reiterate what was stated earlier in regards to our current hedged position for 2024-2028 vs. the Hedging Policy as well as the potential transactions per the Hedging Policy noting the minimum and maximum allowed purchases.

The decision criteria was then discussed noting prices we are trying to avoid as well as prices we feel comfortable committing to.

ADJOURNMENT

Motion to Adjourn the Purchased Power Workshop at 12:36 p.m.

Made by: Mr. Zabrowski
Seconded by: Mr. Rinebold
Votes: 12 ayes

Respectfully submitted,

Michelle Bracale

Michelle Bracale
Recording Secretary

Respectfully submitted,

Laurence J. Zabrowski/mb

Laurence J. Zabrowski
Secretary