

APPROVED

SPECIAL MEETING
ELECTRIC DIVISION WORKSHOP
TOWN OF WALLINGFORD
PUBLIC UTILITIES COMMISSION
WALLINGFORD ELECTRIC DIVISION
100 JOHN STREET
WALLINGFORD, CT 06492
Wednesday, April 29, 2026

1:00 PM

MINUTES

PRESENT: Chairman Robert Beaumont; Commissioners Dr. Joel Rinebold and Laurence Zabrowski; Director Richard Hendershot; Electric Division General Manager Jake Arborio and Electric Division Business Office Manager Marianne Dill

Absent – None

Members of the Public – None

Mr. Beaumont called the Meeting to order at 1:01 p.m., and the pledge of Allegiance was recited.

1. Pledge of Allegiance

2. Discussion – Electric Division Workshop for the purpose of discussing the financial forecast, retail cost of service and retail rates for the Wallingford Electric Division

Mr. Hendershot stated that Mr. Mayhew Seavey from PLM will review the summary of PLM's research and analysis of the WED's financial situation.

Mr. Seavey introduced himself and stated that he was formerly a principal for PLM but is now semi-retired. Mr. Seavey stated that he has been doing municipal electric utility retail rates and portfolio management for almost 40 years.

Mr. Seavey stated that he will walk through the objectives of rate design, cost allocation and the rate design process. The five objectives of rate design are adequacy, fairness, competitiveness, stability and clarity. Adequacy means that rate (and other) revenues should cover the utility's

41 operating expenses and fund the renewal and expansion of the plant to provide reliable service.
42 This is measured by the overall rate of return within the statutory guidelines of 5% to 8%.
43 Fairness is the rate paid by each type (class) of customer should reflect as accurately as possible
44 the cost of providing service to that class of customer. This is measured by looking at the
45 individual rate of return for each customer class. Competitiveness is also looked at but is not as
46 much as a factor as it has been in the past. The cost of energy to each customer should be
47 competitive with the cost of energy paid by comparable customers to other energy providers in
48 the immediate vicinity. This is measured by typical bill comparisons. Stability is the average cost
49 of energy paid by any customer should not fluctuate excessively from month to month or year to
50 year. This is measured by the monthly fluctuations caused by changes in PCA (not an issue for
51 WED) and year-to-year fluctuations caused by base rate changes. When talking about clarity, the
52 rate and its individual components should be easily understood by the customer, and the amount
53 of the bill should be verifiable with minimum effort. The measure of clarity is that you know it
54 when you see it.

55
56 Mr. Hendershot pointed out that that Mr. Seavey will come back to the five objectives at some
57 point.

58
59 Mr. Seavey stated that the cost allocation process is assigning the utility's revenue requirements
60 to each customer class. The plant and expenses are allocated on the basis of three factors:

- 61 • Customer - these allocations are costs which are related to the number of customers rather
62 than the amount of energy consumed. Examples: metering and billing expenses, customer
63 accounts and services.
- 64 • Demand - Distribution— these allocations are costs which are related to the maximum rate
65 at which the customer uses energy, reflecting the size of facilities required to serve the
66 customer. Examples of these are transformers and lines.
- 67 • Demand – Capacity and Transmission - these allocations are costs which are related to the
68 customer's contribution to the system demand during the hour of the monthly or annual
69 billing period. Examples of these are forward capacity and network transmission costs.
- 70 • Energy – these allocations are costs which are related solely to the amount of energy
71 consumed by the customer. These are mostly the purchased energy charges.

72
73 Mr. Hendershot referenced the Demand – Capacity and Transmission allocation factors and
74 noted that the WED transmission costs and ISO administered capacity charges are baked into the
75 wholesale power costs, and thus the PCA.

76
77 Mr. Seavey stated that the first step is the historic test year cost of service study. PLM uses a full
78 historic year's data. These are allocated by costs to each rate class. These are then compared to
79 the actual revenues from each class to allocated costs to determine rate of return. Once this is
80 completed PLM develops the rate designs. This produces adequate revenue to cover operating
81 expenses plus fund capital improvements and PILOT and send clear and correct price signals to
82 customers. This will also hopefully iron out some of the differences between classes. The rate
83 design must balance three main objectives:

- 84 • Uniform rates of return
- 85 • Competitive rates for all customer classes
- 86 • Uniform percentage change for each customer class

87 Each objective produces a different rate design which has a different impact on each customer's
88 class. Finally, PLM does a financial projection. The financial projection will forecast the
89 utility's operating results and asset values over a future time (usually 5 years), contain a cost-of-
90 service calculation to permit tracking of the performance of rates over time and allow different
91 rate design scenarios to be tested over time.

92

93 Mr. Seavey moved to part II of the powerpoint and reviewed the FY27 Proforma Test Year
94 Electric Cost of Service Study. Mr. Seavey stated that PLM looked at FY25, FY26 and FY27
95 when designing the rates. The billing determinants came from Wallingford's Sales Budget 2027
96 V2 report. The rate 5 sales were increased to match ENE's forecast load used to calculate
97 purchased power costs. This resulted in a 15% increase in Rate 5 sales which is about 25 million
98 kWh.

99

100 Mr. Zabrowski questioned if this is what the WED is experiencing?

101

102 Mr. Arborio stated not yet but soon with the new customers coming in. There is a fair amount of
103 construction on the customer side going on, most notably on the Research Parkway.

104

105 Mr. Seavey stated that the revenue from rates is then calculated. This is done by taking the
106 billing units and multiplying them by rate components. This is done by using rates adjusted to
107 produce the same revenue as the present rates but with all forecast purchased power costs built
108 into the base rate. This results in a zero PCA for the test year. The rate revenues were adjusted to
109 reflect other operating revenues and income. PLM added \$4.5 million to Other Operating
110 Revenues and Other Income. The net income under these rates is -\$1,792,777.00. The rates are
111 not covering expenses. Other revenues and income were allocated across customer classes on
112 the basis of rate revenues.

113

114 Mr. Seavey reviewed the allocation factors. The allocation factors are derived from billing units
115 as well as load shape data from WED and Eversource. There are three general categories of
116 allocation factors:

- 117 • Demand – Demand related expenses amount to about 49% of all expenses and used to
118 allocate most distribution expenses, purchased capacity and transmission.
- 119 • Customer – Allocation amounts to about 7% of expenses
- 120 • Energy – Allocation amounts to about 44% of expenses

121

122 Mr. Zabrowski questioned if the rent for the properties have to be included?

123

124 Mr. Hendershot stated yes that is part of the WED's income.

125

126 Mr. Seavey reviewed the Electric Operating and Maintenance Expenses. These schedules show
127 the allocation of all expenses across the customer classes using the allocation factors shown
128 previously. The total allocated O&M expense excluding purchased power is used to create a new
129 allocation factor which is used to allocate Admin & General expenses. In addition, the plant in
130 service needs to be allocated. Mr. Seavey reviewed the Cost of Electric Plant 6-30-2025 and
131 stated that the schedules show the allocation of all plant balances across the customer classes
132 using the allocation factors shown previously. The third column shows the specific allocation

133 factor used to allocate that plant category. The total allocated depreciable plant value is used to
134 create a new allocation factor which is used to allocate General Plant. For purposes of this
135 analysis all plant values reflect the undepreciated value of plant in service.
136

137 Mr. Seavey stated that the bottom line is the Rate of Return by Customer Class. This is the total
138 revenues minus total expenses which equals net income or return on rate base. The calculated
139 rate of return on net (depreciated) plant is 5.4%.
140

141 Mr. Hendershot noted that the billing determinants are based off the actual current retail rates.
142 The WED has not proposed anything new yet.
143

144 Mr. Seavey stated that the 5.4% rate of return on net with current rates includes a 3% increase for
145 FY27.
146

147 Mr. Seavey stated that the individual class rates of return vary from minus 0.4% for Residential
148 to 20% for Primary General Service and Municipal customers. These rates of return are well
149 within the normal range for municipal electric utility rates.
150

151 Mr. Seavey reviewed the Financial Projection FY2027 through FY2031. Mr. Seavey stated that
152 the forecast of operating revenues is calculated by multiplying billing determinants (customers,
153 kWh and kW by rate elements). PLM took the sales growth tied to Energy New England load
154 projection, subtracted losses from energy requirements to drive total sales and then added all
155 increases in sales to Rate 5. This reflects the known growth in large customers. All existing rate
156 elements kept constant for purposes of revenue projection with the exception of Energy Charge
157 and PCA. PLM used the energy charge as the input variable for rate design scenarios. The PCA
158 was calculated by dividing total power supply cost by total kWh sold and subtracting the
159 calculated embedded power cost of 11.45 cents. PLM has projected other Electric Revenues
160 from FY27 budgeted amounts at an assumed 4% escalation rate. The present rate for FY26
161 Budget is \$83,272,472.00 and for FY27 Budget is \$86,967,702.00. This is largely due to the
162 increased sales to Rate 5. PLM then adjusted the Operating Expenses and Revenue with other
163 Operating Expenses which escalated from FY27 budget amount of 4%. Interest income was
164 adjusted by the forecast change in the total cash balance. Other Revenue, Interest Expense and
165 Other Expense were derived by escalating FY27 budgeted amounts at 4%.
166

167 Mr. Hendershot stated that the 4% is an overall embedded presumption of the WED inflation
168 rate.
169

170 Mr. Seavey stated that it is safer to set the target rate of return at the low end instead of the high
171 end. If the rate of return is set at the high end it could result in an embarrassing rate reduction.
172 The rate of return for FY27 is set for 2.8% after operating transfers out and becomes negative by
173 the end of FY31.
174

175 Mr. Seavey stated that in addition to Revenue Expenses PLM is looking at the Plant and the asset
176 value. PLM is projecting the plant in service by using the five-year capital budget provided by
177 the WED. Each plant account was incremented by the amount of capital additions in the budget.
178 Depreciation expense was calculated on the basis of total plant at an assumed overall

179 depreciation rate of 4% and then allocated to individual plant accounts. Retirement was ignored.
180 The undepreciated plant starts out at \$142,840,731.00 for FY25 and ends at \$180,708,839.00 for
181 FY31. The depreciated plant starts out at \$42,835,947.00 for FY25 and ends at \$50,131,549.00
182 for FY31. After FY27 it flattens out where basically the amount of the additions is offset by the
183 amount of the depreciation each year.

184

185 Mr. Seavey stated that the minimum Cash Reserve requirement is defined as follows below:

186

<u>Cash Reserve Calculation</u>	<u>Percentage</u>
O&M less Depreciation & Taxes	12.5%
Taxes	25.0%
Customer Deposits	100.0%
Interest on Customer Deposits	100.0%
Next Year Capital Additions	100.0%
Transfers to General Fund	100.0%
Cash Reserve Requirements	100.0%

195

196 The Cash Reserve minimum requirement starts at \$23,874,772.00 in FY26 and by FY31 the
197 WED is below the minimum requirement. Money is being lost on income and will change with
198 the rate increase. This is another sign that more funds are needed.

199

200 Mr. Seavey stated that there was also a cost of service calculation built into the financial
201 projection model. Allocation factors for energy, capacity, transmission and distribution expenses
202 as well as plant in service were calculated from the Proforma FY27 Test Year Cost of Service
203 model. Those factors were used to allocate expenses and plant for each of the forecast years
204 FY27 - FY31. This provides approximate rate of return for each customer class over the forecast
205 period.

206

207 Mr. Seavey reviewed the three scenarios

208

- 209 • Case with Present Rates – this is based on the budget and the current PCA formula.
210 FY27 produces a 2.8% rate of return, which does not meet WED’s statutory or
211 operational needs. The overall rate of return erodes further to minus 2.9% by FY30. The
212 average revenue remains flat due to no major forecast increases in purchased power cost.
- 213 • Case with a 3% Increase in FY27 – in order to achieve the minimum 5% return on
214 investment it will be necessary to increase rates by about 3%. A 3% across the board
215 increase produces a 5.4% overall rate of return. Individual class ROR vary from 0% for
216 residential to 24% for primary customers in FY27. ROR erodes over the five years to
217 zero in FY30.
- 218 • Case Narrowing the Gaps in ROR – maintain overall rate of return of at least 5%,
219 maintain zero rate of return for residential rate, bring other class rates of return closer,
220 avoid increases in average rate of more than 5%. The results of this scenario are that the
221 WED will maintain an overall rate of return between 5.4% and 5.0% over the five years.
222 The individual class rates of return are between 0% and 15%. Over 5 years the WED
223 ends up with a total increase over 5 years. Residential increases by 8%, Small General
increases by 8%, Large General increases by 8%, Primary Rate decreases by 3%, Small

224 Muni increases by 3% and Large Muni increases by 5%. There are no annual increases
225 in the average rate of more than 4%.

226
227 Mr. Zabrowski questioned how does our reserves stack up with other utility companies?

228
229 Mr. Seavey stated that the WED is looking at their reserves in an actual systematic way which
230 most other utility companies aren't.

231
232 There was a discussion in regards to the WED having something similar done in the past.

233
234 Mr. Zabrowski commented that the rate increases over the next five years are substantially low.

235
236 Dr. Rinebold questioned if the WED is making too much money on the Rate 5 rate of returns?

237
238 Mr. Hendershot stated yes, they are too high. Rate 5 has a lot of sales. They are providing a lot
239 more revenue than is needed to support the plant.

240
241 Mr. Arborio stated this is why Mr. Seavey is proposing the rate to come down based on the
242 numbers.

243
244 Mr. Hendershot stated PLM wants to lower the rate of return for Rate 5 and increase the total
245 shared revenue from residential customers.

246
247 Mr. Hendershot noted that the WED will need to compare Rate 5 to comparable rates for UI and
248 Eversource.

249
250 Ms. Dill stated that she can take a stab at this.

251
252 Mr. Hendershot questioned if this is something PLM could do?

253
254 Mr. Seavey responded yes and that he does this all of the time.

255
256 Mr. Seavey pointed out that the jump in FY27 and FY28 for Rate 5 customers rate of return is
257 entirely due to all the new sales.

258
259 Mr. Arborio stated that Rate 5 may only have 80 customers, but it is the line share of WED's
260 load.

261
262 There was further discussion on the rates for Rate 5 customers.

263
264 Mr. Seavey requested copies from the WED of billing information for all of the Rate 5 customers
265 for FY25.

266
267 Ms. Dill stated that she will work on this and get this over to PLM for review.

268

269 Mr. Hendershot stated that he will request for the PUC to set a date for a public hearing at a later
270 date.

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272

273

274 **Public Question and Answer Period**

275

276 None

277

278 **Public Question and Answer Period Closed**

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281

282 **Committee Reports/Correspondence**

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284 **None**

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288 **ADJOURNMENT**

289

290 **Motion to Adjourn**

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293

294 **Made by: Dr. Rinebold**

295 **Seconded by: Mr. Zabrowski**

296 **Votes: 3 ayes**

297

298

299 The meeting was adjourned at approximately 2:28 p.m.

300

301

302 Respectfully submitted,

303

304 *Bernadette Sorbo/mb*

305

306 Bernadette Sorbo

307 Acting Recording Secretary

Respectfully submitted,

Laurence Zabrowski/mb

Laurence J. Zabrowski
Secretary