SPECIAL TOWN COUNCIL MEETING

JANUARY 28, 1993

7:00 P.M.

AGENDA

1. Roll Call and Pledge of Allegiance
2. Discussion on the Presentation of the Life of Unit Contract and the Need for Full Membership in CMEEC - Public Utilities Commission

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A Special Meeting of the Wallingford Town Council was held on Thursday, January 28, 1993 in the Robert Earley Auditorium of the Wallingford Town Hall and called to Order at 7:10 P.M. by Chairperson Iris F. Papale. All Councilors answered present to the Roll called by Town Clerk Kathryn J. Wall with the exception of Mr. Holmes who arrived at 7:25 P.M. and Mr. Parisi who was ill. Mayor William W. Dickinson, Jr. arrived at 7:15 P.M., Town Attorney Janis M. Small and Comptroller Thomas A. Myers were also present.

The Pledge of Allegiance was given to the Flag.

ITEM #2 Discussion on the Presentation of the Life of Unit Contract and the Need for Full Membership in CMEEC - Public Utilities Commission

Raymond F. Smith, Director of Public Utilities; William Cominos, General Manager of the Electric Division; Mr. Robert O'Neil, Consulting Attorney and Chief Negotiator with the firm of Balis & O'Neil; Alexander Kovacs, Chairman of the Public Utilities Commission, David Gessert and Michael Papale, Public Utilities Commission Members were all in attendance for the presentation.

The revised Executive Summary distributed by the Mayor's Office as part of the backup material best summarized all the information presented this evening. For this reason it will be appended to these minutes for an accurate interpretation all the data presented in support of this consequential issue.

Presently the town pays $32 million for the cost of electricity which translates to approximately seventy-five percent (75%) of the entire budget of the town. Over the next ten (10) years it is estimated that the town will have paid a total of $300 million to $400 million for power. It is imperative that all alternative purchase power options be explored to assure that Wallingford maintains the lowest rates possible for the best deal.

Mayor Dickinson emphasized that the focus of the meeting this evening remain on two topics; 1) LOU contract and what it means compared to current purchased power and 2) membership in the Connecticut Municipal Electric Energy Cooperative (CMEEC) for a term of thirty-five (35) years.

It has been determined by the Law Department that the town cannot enter into a contract with Northeast Utilities for a period of more than ten (10) years in accordance with the Town Charter. As a consequence, in order to receive the benefits of Life of Unit Contracts, we would have to become members of CMEEC for a thirty-nine (39) year period. Under Chapter III, Section 5 of the Town Charter, the Town Council has the authority to enter into contracts for services with political subdivisions of the State. Under Section 7-233a of the CT. General Statutes, municipal electric utilities are empowered to join together to form organizations like CMEEC.

Our existing power is currently being supplied by PASNY, along with the Pierce Generation Station and CL&P.

The unit contracts break the traditional arrangement between the Wallingford Electric Division and its wholesale supplier, CL&P and assigns an allocation of six nuclear, seven fossil, four internal combustion turbine, seven hydro-electric and four pump storage generating units.

Wallingford will receive a specific share of the output of the particular generating stations based on the percentage allocation and will be charged the cost of that facility based on a percentage factor involved.

is the intent that Wallingford will then reassign its share to CMEEC, ich will then allow CMEEC to assimilate its resources, along with Wallingford's, in a blended manner that will provide economic efficiencies to both parties. CMEEC will be responsible for the day-to-day planning, operation, and accounting responsibilities, including dispatch, replacement, and buying and selling of capacity on behalf of a combined system representing the six municipal utilities in Connecticut.

The LOU contracts will require that the Pierce Generation Station remain usable at least through December 1995. During that time, CMEEC will pay Wallingford approximately $600,000 of capacity credit in recognition of the generation capability which is currently available. As a part of the agreement, however, Wallingford is committed to do an extensive study as to the future of the Pierce facility, either through life extension investment or capacity replacement. The Pierce site remains a valuable commodity in that is is an existing generation production location which has been previously licensed, has transmission access and distribution circuits.

A question was raised by the Council on the issue of why we don't consider Hydro-Quebec as an option for power?

Atty. O'Neil explained that New York had considered that option also but backed out. It was cost prohibitive. There is a potential for large ransmission fees in bringing the power to us. Hydro-Quebec thought that ey could build more facilities to flood but ran into public/social regulations. It is not cost-effective at the present time.

Atty. O'Neil went on to explain that the Town can receive credits if Northeast Utilities uses the units for other purposes. He did not tout this as being the perfect approach to purchasing power, just the most prudent at this time.

An "up-front" membership fee is required to be paid in the amount of $2 million by all members to assure equity for all involved.

Some Councilors questioned the financial prospectus of CMEEC. It is reported that they are $100 million in debt.

Mr. Raymond Smith has reviewed CMEEC's standing and has recommended that the Town's bonding counselor review it as well.

A section in the contract contains a pre-payment provision. It provides Wallingford with an opportunity to save its ratepayers up to $500,000 per year by making a pre-payment up to $7,500,000 to CL&P which is not a requirement but is a good business deal in the opinion of Mr. Smith.

The funds remain the property of the Town in a CL&P account.

Mr. Holmes requested that the bond counselor and Finance Department receive a detailed list of all risks, liabilities and impact that could be potentially visited upon the Town due to association with membership in CMEEC.

Mr. Killen asked that counsel review the Town Charter pertaining to the liability on the part of the Town of Wallingford with regards to CMEEC's $100 million debt. Are we going to be responsible to incur a portion of their debt should a default occur?

The Council asked if there was a time restriction on accepting or rejecting this contract?

Mr. Smith responded that CMEEC is waiting to see what develops of this presentation before deadlines are imposed. They are willing to allow the Town a few months to address the issues at hand.

Mr. Myers will contact Attorney Fasi, bond counselor, for his input.

A list of specific questions asked by the Council this evening will be forwarded to Atty. Fasi for an opinion.

Mayor Dickinson left the meeting at 9:00 P.M.

Motion was made by Mr. Doherty to Adjourn the Meeting, seconded by Mr. Holmes.

VOTE: Parisi was absent; McDermott, no; all others, aye; motion duly carried.

There being no further business the meeting adjourned at 9:56 P.M.

Meeting recorded and transcribed by:

Kathryn F. Milano

Kathryn F. Milano, Town Council Secretary

Approved by: Iris F. Papale

Iris F. Papale, Chairperson

February 9, 1993

Date

Kathryn J. Wall

Kathryn J. Wall, Town Clerk

February 9, 1993

Date

Revised

Received
4/28/93
KJW
@7:00pm

EXECUTIVE SUMMARY

The life-of-unit (LOU) contract offers the Wallingford Electric Division an opportunity to secure long-term power supply resources in order to meet its current and future demand and energy needs. Particular resources selected under this proposed contract are designed to be blended with similar life-of-unit resources of the Connecticut Municipal Electric Energy Cooperative (CMEEC) to allow for both systems to take advantage of diversities and economies of scale providing for lower energy costs.

The particular set of generating units selected are customized to attempt to maximize the economics for the Wallingford Electric Division and its customers. The unit contracts break the traditional arrangement between the Wallingford Electric Division and its wholesale supplier, Connecticut Light & Power (CL&P), and assigns an allocation of six nuclear, seven fossil, four internal combustion turbine, seven hydro-electric and four pump storage generating units. These generating units are primarily operated by Connecticut Light & Power[1] and, in many cases, are subject to existing joint ownership or life-of-unit arrangements. Wallingford will receive a specific share of the output of the particular generating stations based on the percentage allocation, and will be

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[1] With the exception of the "Yankee" nuclear generating units which are operated by independent companies.

charged the cost of that facility, again based on the life-of-unit contract percentage multiplier.

It is the intent that Wallingford will then reassign its share to CMEEC, which will then allow CMEEC to assimilate its resources, along with Wallingford's, in a blended manner that will provide economic efficiencies to both parties. CMEEC will be responsible for the day-to-day planning, operation, and accounting responsibilities, including dispatch, replacement, and buying and selling of capacity on behalf of a combined system representing the six municipal utilities in Connecticut.

All New England electric utility dispatch is coordinated through the New England Power Pool (NEPOOL) and its operating arm, known as NEPEX. Power will continue to be received at the two existing Wallingford inter-connection substations, East Street and North Wallingford, and in the future, power will also be received at the new Colony substation, currently under construction. CL&P retains total responsibility for the actual operation, maintenance and modification of the generating facilities, just as it does with existing minority owners or life-of-unit purchasers. Wallingford will be responsible for its pro rata share of costs of the specific generating units, including operation, retirement and demobilization, if and when the latter event occurs. In exchange, Wallingford will receive the benefit of a lower projected cost than its existing wholesale tariffs provide.

In addition, Wallingford will receive emissions allowances that will be necessary in the future in order to operate fossil fuel generating facilities in accordance with the Clean Air Act of 1990. Wallingford is otherwise not entitled to any Clean Air Act emissions since it had virtually no actual generation during the benchmark time period used in determining base emissions allowances. This is important since it allows Wallingford far more flexibility than the current wholesale power arrangement permits. Besides the existing regulations covering sulfur dioxide (SO_2) emissions allowances, the contract contemplates that there will be some regulations dealing with nitric oxide (NOX) emissions. Wallingford will be receiving a pro rata share of the NOX emissions in the event that there is a national act governing these emissions.

The charges for the proportionate share of the generating facilities covered by the life-of-unit contracts are implemented through "formula rates" identical to the methodology used in the CMEEC arrangements. Formula rates are just another rate-making mechanism in order to achieve a revenue stream that is commensurate with the expenses associated with a particular generation unit. In traditional rate-making schemes, such as the existing wholesale ESA (electric sales agreement), all those costs are rolled in to a blended rate. Formula rates are not unique in this country as they are used extensively in a multitude of contracts involving inter-utility arrangements.

By affiliating with CMEEC, these costs will be rolled in with the rest of CMEEC's life-of-unit or plant ownership costs and added to other administrative charges to establish an operating budget. From this budget, CMEEC will create a demand and energy rate similar to the one we are charged currently by CL&P. This will be the same rate which is invoiced to all CMEEC members. The life-of-unit contracts, when used properly, offer a utility or agency such as CMEEC an opportunity to save money for its customers by controlling costs through power sales, purchases or exchanges when market opportunities avail themselves. CMEEC has had twelve years of experience operating under the life-of-unit concept and has functioned extremely well, saving their members millions of dollars during that time period, through "power swaps." Again, taking advantage of the diversity of the affiliated systems, a Wallingford/CMEEC arrangement is projected to save even more for a six-system pooling of the combined resources. The Black & Veatch figures developed earlier this year indicated that a conservative savings estimate was $24 million just in the next ten years.

A long-term advantage of life-of-unit contracts is important in the latter years of their existence since it will protect Wallingford by providing embedded cost rates, as compared to marginal cost rates. The marginal cost charges are expected to be significantly higher around the turn of the century as some units become retired and replacement capacity will be more expensive due to the higher rates of inflation and other construction costs. Another advantage to having life-of-unit contracts is that they allow Wallingford flexibility in the decision-making process for new resources which would be more tailored to Wallingford Electric Division's unique load characteristics which are different from those of CL&P. However, as a fall-back position, the proposed LOU has a provision that allows Wallingford to still have the option to fall back on CL&P resources if these prove to be more favorable than other planned generation sources in our region. In addition, Wallingford also has a right through these agreements to acquire replacement capacity for any units which are retired in the original group of resources. This is unique in life-of-unit agreements since traditionally a utility is unwilling to provide these types of "security blanket" provisions.

The life-of-unit contracts will require that the Pierce Station remain usable at least through December 1995. During that time, CMEEC will pay Wallingford approximately $600,000 of capacity credit in recognition of the generation capability which is currently available. As a part of that agreement, however, Wallingford is committed to do an extensive study as to the future of the Pierce facility, either through life extension investment or capacity replacement. Certainly, the future of the Pierce Station needs to be investigated thoroughly. The Pierce site remains a valuable commodity in that it is an existing generation production location which has been previously licensed, has transmission access, and distribution circuits. Should these life-of-unit contracts be accepted and the CMEEC arrangement commenced, it would be appropriate to retain a consultant shortly thereafter to begin in-depth evaluation of the potential site uses.

It is highly likely that a combustion turbine would be the most viable replacement option. However, a combined cycle unit (a base load gas turbine arrangement) may become more practical depending on other considerations. Those other considerations include joint ownership with CMEEC and/or CL&P which could alter the size of the replacement capacity.

Another important benefit that is contained in the LOU contracts is a pre-payment provision. This section provides Wallingford with an opportunity to save its ratepayers up to $500,000 per year by making a pre-payment up to $7,500,000 to CL&P. The company will pay Wallingford interest based on their avoided cost of capital (currently at 9.8%). By keeping these funds in Treasury bills, Wallingford is presently obtaining 2.6% - 2.9% in interest income. Also, Wallingford maintains the right to withdraw these monies at any time to use for capital needs, rate stabilization or other requirements. This one-time option makes good business sense to exercise on behalf of Electric Division ratepayers.

In summary, the proposed life-of-unit contracts allow Wallingford to become more proactive in the production cost area of our expenses. Approximately 75% of the Electric Division's costs are related to power supply. Through affiliation with CMEEC, we should be able to take advantage of the economies of scale and diversities of the systems and continue the success that CMEEC has been able to achieve for its existing members. The LOU contracts allow Wallingford to bring resources that can be blended with existing CMEEC resources in order to take full advantage of a merging of the systems. CMEEC has substantial capabilities of power supply planning and operation and is capable of doing short-term studies on behalf of six systems, as well as the existing five, without expanding its staff or incurring any additional costs. Projections indicate that in the first year alone Wallingford can save several million dollars through affiliation with CMEEC, compared with remaining a customer with CL&P with an expected 15-20% increase in charges through a wholesale rate filing. LOU contracts are rare in the utility industry and are coveted by many municipal systems since large utilities are reluctant to share the benefits of embedded costs of power plants with wholesale purchasers. Only because of the current market conditions and Wallingford's intervention status in the NU-PSNH merger case, is Wallingford able to take advantage of acquiring these LOU contracts which will assure the Electric Division of at least a substantial portion of its energy needs well into the next century. By utilizing these resources and acquiring additional contracts or becoming joint owners in other power plants, Wallingford will be able to remain competitive in its rates at a time when the utility industry is going through substantial changes. Those changes come about in the form of deregulation, open transmission access, and a push by the Federal Energy Regulatory Commission to market-based pricing which will certainly lead toward higher charges to traditional wholesale customers. This window of opportunity to acquire LOU contracts may not exist in several years, once the New England economy recovers and the full impacts of new regulations are effectuated.

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