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2 **DRAFT**

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4 PUBLIC UTILITIES COMMISSION  
5 100 JOHN STREET  
6 WALLINGFORD, CT  
7

8 **BUDGET WORKSHOP**  
9 February 23, 2009  
10 10:00 A.M.  
11

12  
13 PRESENT: Chairman David Gessert (via phone), Commissioners Robert Beaumont and  
14 Richard Nunn, Director of Public Utilities George Adair, Water and Sewer Divisions  
15 General Manager Roger Dann, Water Superintendent Richard Vanski, Water and Sewer  
16 Divisions Office Manager William Phelan, Electric Division General Manager Richard  
17 Hendershot, Electric Division Office Manager Thomas Sullivan, Accountant Cindy  
18 Griffin, Recording Secretary Kathy White and Dave Moran, Record Journal.  
19

20 The workshop began at 10:00 a.m.  
21

22 **WATER DIVISION**  
23

24 Mr. Adair indicated that the largest issue affecting all of the budgets is a lower sales  
25 volume than was forecasted when the rate studies were done for Water and Sewer. The  
26 General Manager will provide further details and additional information as to where we  
27 stand in other ways relative to those forecasts. These are doable budgets that are not far  
28 off the mark as to where we thought we would be at this point in time. Mr. Adair also  
29 complimented Roger Dann and his staff for their work in preparing these budgets.  
30

31 Roger Dann indicated that a significant factor in both Divisions has to do with  
32 consumption. The projected consumption for 2009/2010 is down 4.6% compared to the  
33 current year's consumption estimate; and down 2.7% versus the rate projections – a fairly  
34 significant impact. Revenue projection is up just over 2% and is attributed to the  
35 scheduled rate increase (3<sup>rd</sup> year of the currently adopted rate schedule).  
36

37 Common to both Divisions, non-operating revenue is experiencing a decrease due to  
38 much lower rates of return on investments. Connection charge revenue is also down due  
39 to the decline in the construction industry.  
40

41 An overall increase is being shown in Water of 5.5%, approximately \$339,000. For  
42 example, there is a shift in the labor from the capital side to the operating side of the  
43 budget. About \$76,000 of the operating increase is attributable to a corresponding  
44 decrease in the capital budget portion. About \$45,500 of the increase is a depreciation  
45 increase. Removing those two factors, the net increase would be about \$217,000 or about  
46 a 3.5% increase.

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3 There are several other items that I would like to call to your attention. The projected  
4 chemical expense is up substantially, due to energy prices on either the manufacturing  
5 side or transportation side. Vendors are hesitant to commit to a full year on a bid, and we  
6 have had to resort to bidding on a six-month basis or even on an as needed basis.  
7 Electricity costs are up. Pension and health benefits have also risen significantly  
8 (\$147,000 increase in total).

9  
10 On the capital side of the budget, the overall regular budget is down approximately  
11 \$711,000 which equates to in excess of 48%. In the current year, there was significant  
12 water main replacement work, up from what was predicted. The decision was made last  
13 year to proceed; however, it was to be offset with a corresponding reduction in the second  
14 year, keeping the Division on target with the two year projection.

15  
16 Gessert questioned funds earmarked for water main repairs. Dann indicated that main  
17 replacements are what's driving the budget. Actual expenditures tend to lag behind, but  
18 the work is eventually completed. Phelan indicated that the water mains may be  
19 budgeted in one year but the major payments may not be completed in that year. The full  
20 impact of the total expenditure may not be realized in the budgeted line item.

21  
22 Dann indicated that the cycle of development on a water main project is: Fall into  
23 Winter, the preliminary survey, soil borings, and development of the biddable spec are  
24 done. February/March, the projects are put out to bid and an award so that work may  
25 begin in April. Even though the work is awarded, the bulk of expenditures tend to come  
26 in after July 1.

27  
28 Distribution System from Developers - Gessert indicated is a wash item. Why is  
29 \$400,000 being budgeted when there is not a great deal of development? Dann indicated  
30 that it is a wash, and in the past we have been close to this figure. This amount was  
31 established so that we would not exceed this number and it has been left as it. Basically  
32 it is contributed to the Division or someone else is paying. Beaumont and Gessert agreed  
33 that a figure of \$250,000 would be in order and Dann indicated that the adjustment would  
34 be made.

35  
36 Maintenance of hydrants was increased approximately 50%. Dann indicated that this was  
37 due mostly to the parts that the Division is purchasing. Risers for hydrants and parts for  
38 repair have driven a \$12,500 increase. There is also a change in labor allocation based on  
39 the year end review of last year's budget.

40  
41 Gessert questioned whether there would be a financial advantage in redoing existing  
42 bonds. Dann indicated that the Comptroller approached Town Council several months  
43 back to get permission to review refinancing options. This may happen in the next  
44 several weeks. Beaumont indicated that the rates may not be as good as expected due to  
45 the factor that lenders are not very willing to lend.

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3 The budget and more significantly the Sewer budget does not include funds for  
4 outstanding contract increases (1183 and 17)

5  
6 In the 5 year capital, we have reflected expenditures that relate to major component  
7 replacement. A reserve was established and preliminary scheduling has been addressed  
8 as to what needs to be done and when, thus determining if the funds are adequate. As an  
9 example, look at the water treatment equipment - \$324,900. This represents funds that  
10 would provide the replacement of the instrumentation, control panel and the SCADA  
11 system at the water plant. In the 2013/2014 budget, funds are listed under Source of  
12 Supply that would deal with the variable frequency drives and starters at the Raw Water  
13 Pump Station. The same will be done in Sewer.

14  
15 Adair also indicated that security provisions were also scheduled to be upgraded. Alarms  
16 at various sites as an example. Dann indicated that this year there was a great deal of  
17 fencing, and next year's proposed includes some additional fencing as well as alarms,  
18 patches, doors, etc. An outline of what we would like to accomplish, added up the cost  
19 and realized that it far exceeds what could be accomplished in the short term. We plan on  
20 addressing this over a five year period, with the higher priority being accomplished first,  
21 followed by the lower priority items later on.

22  
23 Beaumont questioned "grouting and restoration", assuming that it was for work on the  
24 dam at MacKenzie. Dann indicated that the restoration is for restoring the MacKenzie  
25 filter plant site. The remainder of the funds is for the grouting of the spillway.

26  
27 Beaumont indicated that "Maintenance of Wells and Springs" is budgeted at \$50,000 and  
28 year-to-date, a total of \$4,000 has been spent. Where do we stand? Dann indicated that  
29 the bulk of the budget was for electrical and pump upgrades at Well 1.

30  
31 Beaumont questioned \$22,000 for repaving at Kohls. Dann indicated that this figure was  
32 beyond permanent trench repairs. State is looking to have approximately 100 linear feet  
33 of length milled and overlaid. Wallingford must assume responsibility, as it is our break.  
34 Route 68 over by Westbrook Lobster was another example.

35  
36 Beaumont asked what the rough cost-per-foot of water main replacement on Sorrento  
37 Road would be. Dann indicated that the cost was updated yearly, and based on the most  
38 recent project, the amount would be \$145.00/foot. There has been a significant increase  
39 in the cost of materials, specifically metals. To date, there has not been a decrease in  
40 materials; however, the labor component is becoming more favorable.

41  
42 Vehicles were discussed. Of note was the fact that Ford has not been bidding on fleet  
43 vehicles and mileage versus usage as it compares to the condition of the vehicle.

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4 Beaumont also questioned the five open positions. Do they need to be carried? Dann  
5 indicated that it is a good tool to keep track of where we were versus where we are to  
6 date.

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8 **SEWER DIVISION**

9  
10 Dann indicated that Sewer revenue is down 4%, projected consumption versus the current  
11 use budget, and a 7.1% less than what the rate projection was. (Final year of the adopted  
12 rate). In spite of this, revenue is up 1.2%, again attributable to a rate increase scheduled  
13 in Sewer, going from \$3.52 to \$3.73 per 100 cubic feet. Reflecting non-operating  
14 revenue down just under 18%. Operating expenses are down 1.9% or about \$131,500. In  
15 addition, the \$75,000 in the current year's budget for the facilities study is being  
16 reappropriated, based on progress made to this point. It is anticipated that this will not be  
17 ready to proceed until next fiscal year.

18  
19 At the Wastewater Treatment Plant, the purchase of bearings for the RBC's has been  
20 completed and an adequate supply of RBC drives is in stock, allowing for a year off from  
21 purchasing same. The bearings and drives combined amount to \$76,600 of reduction.

22  
23 Nitrogen credit expense is rising, approximately \$50,000. Still better than what was  
24 projected earlier during the rate study.

25  
26 In the regular capital, an overall increase of 40% is being reflected or about \$133,400.  
27 The bulk of this relates to the second phase of the Grieb Road project, going from Leigus  
28 to North Farms. A change was made to funds this work from the Major Capital  
29 Replacement Fund Reserve which helps to offset the revenue shortfall seen over the  
30 course of the existing rate.

31  
32 The budget as it is proposed would require a total of about \$370,000 in cash, with  
33 \$75,000 being a reappropriation of money that will not be used in the current year. In  
34 essence, a net of \$295,000 of which \$220,000 is coming from the excess in the  
35 maintenance reserve (the portion of the reserve that is greater than \$750,000).

36  
37 As previously mentioned, this budget does not include the 1183 and 17 contract increases  
38 and in the Sewer Division, this is a more significant consideration. For every percent of  
39 contractual increase that might occur, the impact to Sewer would be about \$34,300. (The  
40 1183 contract is currently 1.5 years in arrears).

41  
42 Long-term capital includes planned utilization of the major component replacement  
43 reserve, just as in Water. The Wastewater facility is slightly older, and as there are more  
44 items that will fall into this category, the set-aside is higher, but the draw is also higher.  
45 As I indicated earlier, while showing the projects in the five year capital, there is not a  
46

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3 balance between the revenue side and the expenditure side. This will be addressed going  
4 forward into the next rate period.

5  
6 Gessert – Regulatory Commission Expenses are up 1,052%. Dann indicated that this was  
7 exclusively denitrification costs. Beaumont indicated that it is still less than the 07/08  
8 budget. Phelan indicated that there would be a drop in the next version due to receipt of a  
9 refined number which should be \$54,203 versus \$55,000. This number is based on the  
10 average monthly discharge over and above the permit level limit. Dann indicated that it  
11 is really two components – how much we’ve exceeded the permit level and the unit cost  
12 as set by the Nitrogen Credit Trading Board. Adair indicated that the unit cost is set  
13 theoretically based on the cost to construct new “denite” facilities.

14  
15 Beaumont commented that a change should be made in Contribution in Aid just as had  
16 been done in Water, making it \$250,000 as well as below in Capital Additions from  
17 Contribution, making it a wash.

18  
19 Beaumont questioned “muffin monsters”. Dann indicated that they are inline grinders  
20 designed to grind up the larger solids prior to going into a pump.

21  
22 Beaumont also stated that a discussion between he and Adair regarding software  
23 compatible with the new system to monitor fleet maintenance had taken place. Where  
24 does this stand? Dann indicated that the software has been looked at to some extent and  
25 don’t feel that the software will be a major expense. The big piece of the puzzle is how  
26 to accomplish the networking associated therewith and who can access the data for date  
27 entry purposes. There is no network between facilities and does it belong on the network.  
28 Beaumont feels that it does belong there, as each Division must be able to access. Adair  
29 stated that all involved with entering information, whether accounting, garage personnel,  
30 etc. need to access.

31  
32 Gessert suggested that Pete Struble be contacted to learn what software the Fire  
33 Department uses. Dann thought that Public Works also uses as part of Fire’s program.  
34 Adair stated that he is taking the directive to establish the required funds.

35  
36 **PUC**

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38 Gessert recommended that the Commissioners stipends remain the same for next year.  
39 Beaumont and Nunn are also in agreement.

40  
41 Adair indicated that any increase in salaries would be addressed and Beaumont stated that  
42 amounts were yet to be determined.

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4 **ELECTRIC**

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6 Adair stated that one of the significant factors is that the volume of sales is down fairly  
7 markedly, both from the UFS forecast and from what we assumed for the forecast of this  
8 year's budget. It's offset somewhat by the rate increase, with one additional increase yet  
9 to come in November 2009 and the fact that the rate structure is also increasing the flat  
10 charges that apply. Some cash is still being put into Retained Earnings, but not as far  
11 ahead of the game as we would hope to be based on some of the earlier forecasts.

12  
13 Hendershot indicated that given what is seen as declining sales and the general softening  
14 of the economy, the budget sales for the 2009/2010 fiscal year has been set equal to  
15 calendar year 2008. Actual data is available and the weather over this 12 month time  
16 period is fairly average. The budget that we're discussing today is based on sales that  
17 will have occurred in the past. Usually, load increases as we move forward, however, to  
18 say that there will be no growth is a very conservative position.

19  
20 Adair stated that significant increases in the cost of purchased power are expected so that  
21 sales (dollars) are going up substantially, but cost of purchased power is also going up by  
22 a similar amount.

23  
24 Nunn expressed that an explanation was needed for the customers as to why with a  
25 conservation program the rates are going up. Hendershot said that it was never stated that  
26 conservation would lower the rates, but tried to tell the customers that it lowers their  
27 consumption.

28  
29 Beaumont questioned that the proposed operating budget is currently \$440,000 higher  
30 than the current budget. Adding up the numbers listed in the cover memo, I come up  
31 with \$420,000. Where's the difference? Hendershot stated that had these things not  
32 happened, the budget would have been higher.

33  
34 Gessert questioned the increase in Community Welfare. Sullivan stated that the change  
35 previously adopted in the current year's budget for WEAP has not been seen yet. This  
36 money is available to respond to requests for reduction in bills.

37  
38 Beaumont questioned "Transmission" under Operating Expenses. We've used less than  
39 half the budget at this point this year, and am I correct in assuming that we have to use  
40 the rest this year? Is that why we're budgeting less next year?

41  
42 Hendershot said that in essence this is all labor and an allocation thereof. The decrease is  
43 largely created by the fact that one of the five System Operators is a new employee, being  
44 paid at a lower rate than the other four.

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4 Gessert questioned #454 – Rent from Electric Property. Sullivan indicated that these  
5 funds are payments that we receive through AT&T for use of the utility poles by cable  
6 companies. There may also be monies from Sprint.

7  
8 Gessert stated that there should be \$50,000 for rental of the generators on site plus  
9 \$150,000 for Pierce. Sullivan stated that they are contained in the Miscellaneous Non-  
10 Operating Revenues, Account 418.

11  
12 Nunn felt that more detail should be given for the rental income. Sullivan stated that  
13 PP&L has paid almost \$575,000 and Pierce comes in at \$150,000 and \$53,500 for the  
14 diesels. Gessert would like to know which generators have escalator clauses and which  
15 contracts escalate and which don't.

16  
17 Gessert questioned #587 – Installation Expense; shows \$11,000 for half the year and  
18 \$35,000 for the coming year; slightly less than the year before. Is this overstated versus  
19 actual? Hendershot stated that it's mostly labor (trouble calls).

20  
21 Gessert questioned #598 – going from \$28,000 to \$9,000 to \$63,000 to \$63,000.  
22 Hendershot said that it's a place holder for when the Environmental Consultant is needed  
23 to address spills. I would suggest decreasing this account by \$10,000.

24  
25 Gessert asked about the Customer Relations Supervisor. Hendershot stated that there are  
26 five interviews, with the first being this afternoon.

27  
28 Gessert talked about personnel. The apprentice linemen and journeymen forces are being  
29 beefed up. Would it be possible for our own linemen to do "contractor" work?  
30 Hendershot stated that at this point, we're about a 12 to 18 months away. Not yet at a  
31 juncture where I would be comfortable letting McPhee go. Also considering using our  
32 own personnel for underground work.

33  
34 Gessert questioned Capital Carry Forwards. Can we move these projects along to help  
35 the economy? Hendershot said that the unencumbered carry forward balance is  
36 \$1,000,000 through December 2008, down significantly from several years ago. We  
37 have worked to draw this down, with this budget reflecting a consideration of that. An  
38 example of this would be a \$0.00 expenditure for new meters as there was plenty of carry  
39 forward money and the funds were removed from that.

40  
41 Gessert also questioned lab equipment, #395, and the \$20,000 budgeted for this year.  
42 Hendershot stated that he will have to provide an answer, as he doesn't know. Sullivan  
43 advised that the \$20,000 is for an interference noise detector. The \$15,000 this year is  
44 for a different piece of equipment.

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3 Beaumont questioned #362, on the capital budget, under station equipment. Replacement  
4 of batteries that are showing their age, relays, etc. Hendershot said that there is an  
5 increase also for substation security, anticipating a better than outside chance that our  
6 status with the Northeast Power Coordinating Council may change from being a  
7 distribution provider and a load serving entity to a transmission owner. Should we be  
8 placed in that category, mandatory reliability requirements that do not apply to us now  
9 come into play. Essentially it is FERC's and NERC's response to the Blackout of 2003.  
10 Should our status remain the same, the funds will no longer be required.

11  
12 Beaumont questioned #184, insurance. Our vehicle insurance has decreased this year?  
13 Do we have fewer vehicles? Sullivan indicated that pricing obtained through Risk  
14 Management have decreased. Adair questioned whether there is a final number on  
15 property and casualty insurance. Sullivan indicated that we have been given the figure.

16  
17 Beaumont questioned #596, Streetlight Maintenance. Why the decrease? Hendershot  
18 replied that it's purely parts; what we've had to purchase versus what's in stock.

19  
20 Beaumont questioned Customer Assistance , 908. Hendershot said that it's for postage  
21 and mailing of the newsletters. These are now put in with the bills and no additional  
22 postage is required.

23  
24 Beaumont - #921, Office Supplies and Expenses – Telephone. It's good to see that it is  
25 less. Hendershot explained that it's the result of AT&T approaching the WED and  
26 brought to our attention the idled and underused lines that we had.

27  
28 Gessert questioned whether Groton did anything with LED streetlights. Adair stated that  
29 it wasn't practical at that time. Hendershot will check into this and advise.

30  
31 Beaumont - #391 – will speak with Chris Lucht directly.

32  
33 Beaumont - #392 – Transportation Equipment. Hendershot – the bucket truck is the  
34 oldest in the fleet. The Electrician's van is also to be replaced. Beaumont has also  
35 requested a listing of all vehicles in the fleet.

36  
37 Hendershot – in addition to the feedback on the LED lights, I will also be mailing you a  
38 rental income schedule and also a vehicle listing.

39  
40 Beaumont – any additional questions or comments?

41  
42 Gessert thanked everyone for their input.

43  
44 Adair stated that with the changes noted, we're "good to go" with the Mayor's workshop.

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3 The workshop adjourned at 12:20 p.m.

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6 Respectfully submitted,

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10 Kathleen White

11 Recording Secretary

Respectfully submitted,

Richard A. Nunn

PUC Secretary