

TOWN COUNCIL WORKSHOP

MARCH 5, 1991

5:30 P.M.

The Town Council will meet with the P.U.C. for a workshop at 5:30 P.M. in the Robert Earley Auditorium of the Wallingford Town Hall.

AGENDA

1. Discussion on the Pierce Generation Expansion Project

(A Public Hearing on this issue will take place at 7:00 P.M. on this same date in the same location)

SPECIAL TOWN COUNCIL MEETING

MARCH 5, 1991

7:00 P.M.

AGENDA

1. Roll Call & Pledge of Allegiance
2. Remove from the Table to Continue the Discussion and Possible Action of a PUBLIC HEARING on an Ordinance Appropriating \$472,000 For The Planning and Design Phase of the Town Electric Generation Expansion Project and Authorizing the Issue of \$472,000 Bonds of the Town to Meet Said Appropriation and Pending the Issue Thereof the Making of Temporary Borrowings For Such Purpose - 7:00 P.M.

TOWN COUNCIL/P.U.C. WORKSHOP

MARCH 5, 1991

5:30 P.M.

A Joint Town Council/P.U.C. Workshop was held on Tuesday, March 5, 1991 in the Robert Earley Auditorium of the Wallingford Town Hall. The meeting was called to Order at 5:45 P.M. by Chairman Albert E. Killen. All Council Members answered present to the Roll called by Town Clerk Kathryn J. Wall with the exception of Mr. Zandri who arrived at 6:29 P.M. Mayor William W. Dickinson, Jr. and Comptroller Thomas A. Myers were also present. Town Attorney Janis Small was absent.

Public Utility Commission Members present were Raymond Smith, Al Kovacs, & Robert Beaumont. Michael Papale arrived at 6:14 P.M.

Also present were Leslie P. Rinck, P.E., and Lyle Thornton representing the firm of Black & Veatch.

An informal and open discussion period ensued.

Mayor Dickinson stated that a list of seven points regarding the generation project and reasons for its approval have been prepared and distributed by the Mayor.

Mr. Holmes: My concerns from the time that the initial report came out was the forecast of electrical growth over the next ten to twenty years. From what I have seen at this point there is apparently a surplus of electricity on the market and when you take that into account in your selection of engines. What date do you have over the next twenty years for electrical demand? What is your growth projections over the next ten to fifteen years for the Northeast and Connecticut?

Raymond Smith: Our latest forecast which was submitted in August of last year indicated approximately an average growth of 1 1/2%. The forecasts are updated each year.

Mr. Holmes: When was it last updated?

Mr. Smith: Recently, there is a 1990 version, whether the 1991 version is out yet, I am not sure.

Mr. Holmes: The document in your office indicated a 2% growth for the next 20 years. When was the updated?

Mr. Smith: That is the original feasibility study.

Mr. Holmes: When was the revised downward to 1 1/2%?

Mr. Smith: Last August.

Mr. Holmes: Where was that shown, I didn't see anything that indicated that?

March 5, 1991

Mr. Smith: That would not have shown in the feasibility study.

One of the representatives from Black & Veatch spoke off microphone unintentionally and therefore was not recorded.

Mr. Holmes stated that the information he had according to the 1990 New England Power Pool Forecast of Capacity Energy Loads and Transmissions, I think that is what C.E.L.T. stands for. He went on to read that the "annual average growth and peak demand for NEPOOL will be 2.92% a year from 1990 to 1998. Demand will go from 20,880 megawatts in 1990 to 26,274 megawatts in 1998." "...The capacity margins will decrease from 29% now to only 12.47% in 1998. The reserve margins will drop to 9.87% in 1999 even after the boost from the 1,150 megawatt Seabrook I Nuclear Station." So they are showing growth for the New England area and also a reduction in capacity in reserve margins for the area. That runs counter to what you were just saying, how do you reconcile the two?

Mr. Smith: There is an updated report, that is not the most recent version.

Mr. Holmes: This is as of October 1990. What is the revised date?

Mr. Smith: I don't have it with me, I am sure my office may have received it, I did not personally see it. The information that I have is in the low 1 1/2 - 2% revised forecast. There is some protected growth.

Mr. Holmes: Yes but that runs counter to what Black & Veatch is saying where there is going to be no demand. There is going to be a flat demand curve.

Mr. Smith: I don't think that he said that. He said one of the runs that they did, they said, let's look at a condition where you have no growth, what does that do to the project?

(Mr. Rinck's and Mr. Thornton's comments were inaudible for the majority of time due to the fact that no one realized that the microphone was in the off position. Depending on the background noise, this transcriber did the best she could in capturing as much conversation as was possible, hence the broken communication attributed some of the speakers)

Mr. Lyle Thornton stated that until 1998 you are living with an existing service contract with Northeast Utilities. What Black & Veatch tried to do was in December they took a look at what the potential was for.....(inaudible due to the microphone being in the off position).

Mr. Solinsky asked if our current contract allowed for a change in the mechanism/machinery from the Pierce Plant to a portable unit like this?

Mr. Smith: Yes.. It recognizes that we have the ability to expand our capacity up to 32 megawatts gross.

Mr. Solinsky: On the Mayor's handout, Item #3, I don't follow that, could you explain that?

Mr. Smith: We are not currently members of NEPOOL, there is no advantage to us to be members. We do have the option to join someday. You have to be a generating utility to be a member.

Mr. Solinsky: Item #4, Blackstart, that is starting without any additional electricity coming in?

Mr. Smith: Yes. We do not have that in the Pierce Plant.

Mr. Holmes: Who will buy the other 8 megawatts at this point on a 40 megawatt machine? Do you have a customer for that?

Mr. Smith: We have a potential customer, they have not signed a letter of intent but are showing strong interest.

Mr. Holmes: Based on your report in which you said to this point even 40 is too big.

Mr. Smith: Based on our current contract that we can only get credit for 32 of those 40 and we cannot sell them off-system, its larger than what we need. Does it give us some growth potential? Yes. Does it cover us post 1997? I would think so, I would hope that we could pare down that 32, eliminate that 32 megawatt limitation.

Mr. Holmes: That is an unknown then. My point is, we are going to spend \$17 million to run 100 hours a year to be a peaking facility. When this was first brought before us there were larger ideas for the division where we could be a more significant contributor to the market, now we are facing a \$17 million project on a machine that we are not even sure will run 100 hours per year, is that correct?

Mr. Smith: That is right.

Mr. Thornton: You still get the credit for it.

Mayor Dickinson: In terms of what savings there are per year based upon a \$17 million investment, I think that is where we come out to the \$3 million - \$4 million per year averaged savings. That is the figure that they have arrived at for the economic feasibility. That is the savings as a result of the investment.

Mr. Holmes: In that case what other scenarios are available that is cheaper than \$17 million to get the Pierce Station capable of generating 32 megawatts?

Mr. Smith: The cheapest alternatives, industry-wise are combustion turbines. They are purchased because they are cheap, quick to install and have a low, initial price.

Mr. Thornton: Combustion turbines come in distinct sizes. There is not much of a selection between the mid 20's and the 40 megawatt range. The original feasibility work showed that the return on investment was not as good for a machine in the mid 20's

March 5, 1991

range. The machine that is recommended is the best selection of options and the best middle-of-the-road choice. It utilizes the _____ available in the _____ contract but it also minimizes the exposure of not being able to contract for megawatts above 32.

Mr. Holmes: If you took a machine in the high 20 megawatt range based on your capital costs and based on what you would have to do to re-negotiate your contract, what does that do for your financial plan?

Mr. Thornton: The return would not be as good as is with a larger machine. We looked at that when we looked at...one example we used in the feasibility study was the G.E. frame five which has megawatt capacity.....

Mr. Holmes: When does the contract come up?

Mr. Smith: 1998.

Mr. Holmes: At that point that is when you start seeing the gap between supply and demand. Even at a 2% growth factor there is going to be unmet demand and I think that we should aggressively market our energy. The second item on the agenda tonight is economic development. I mean, tomorrow. Are they going to be asking us to provide tax breaks to potential people relocating into town? When a business locates in an area, one of the things they look at is available utilities. What a fine drawing card we could have if we had capacity to generate electricity to attract businesses into this town.

Mr. Rinck: You are thinking along the lines of.....strictly for the Town of Wallingford vs. the fact that the machine itself will be a peaking load machine dispatched by NEEPOL.

Mr. Holmes: NEEPOL shows the existing capacity and schedule retirements, they factor in Seabrook,.....non-utility generators, and there is still a gap once you go past the late 90's into the year 2,000 you get the demand curve here and the supply curve here (motioned with hands).

Mr. Rinck's comments were inaudible.

Mr. Solinsky: We received \$1.8 million credit for Rider A?

Mr. Smith: If we were to build a new machine and take advantage of the full 32 megawatts, the first year credit on the existing contract is \$1,832,000.00., if I recall.

Mr. Solinsky: It costs us approximately \$500,000 for operating and maintenance of the Pierce Plant?

Mr. Smith: The way it exists today, somewhat lower than that but somewhere in that range. I would have to look at the budget.

March 5, 1991

Mr. Solinsky: That would drop with this new.....?

Mr. Smith: We would still have to dismantle that plant one way or another. If we went out of the generation business we still have some significant expenses. I think that we discussed that last time. We may be able to sell some, sometimes you can market small machines.

Mr. Solinsky: How can we save as much as \$3.5 million per year?

Mr. Rinck: That is the uniform annual savings, that's the fact that costs and savings are going to go up in time.

Mr. Smith: For instance it starts off with \$1.8 million and assumes a rate increase in 1993, 1994, 95, you ramp up a rate increase. Maybe the savings at the end of the life is \$6 or \$7 million dollars per year.

Mr. Solinsky: Seeing the rates never increased, the most we could save per year is \$1.8 million under our current contract?

Mr. Smith: If the rates never increase, we should not build this plant. If you can guarantee me that.....

Mr. Solinsky: I will not guarantee you anything. You are saying that the rates 20 years from now will increase drastically to make up to bring the average to \$1.8 million up to \$3.5 million?

Mr. Smith: Electric rates have probably doubled every 8 years.

Mr. Solinsky: Does this Rider A increase each year?

Mr. Smith: That would increase because your voided costs would increase. The benefit is, you do not get a check for \$1.8 million. You don't pay out \$1.8 million to N.U. you either buy it from them at that accelerated rate or you don't, that's how we save.) save in demand charges.

Mr. Solinsky: Does that credit increase each year?

Mr. Smith: It is projected to increase. We don't know what is going to happen January 1, 1993 at this point. The only thing that we were able to secure back in 1988 was a 5 year fixed rate. That expires at the end of 1992. We have to go back in for contract negotiations. What N.U. is limited to is that they can get any rate increase they can but it is capped at what ever the producer price index has been since January 1988 through December of 1992, which may accrue to about 30%. If they can justify a rate increase of 30% or more then they are allowed to file for that.

Mr. Smith: According to an official at Northeast Utilities they are looking at the rate increase already because they feel that their earnings are eroding. I'll quote him, "Earnings are eroding in the current rate structure".

March 5, 1991

Mr. Solinsky: In this extra 8 megawatts, what could you possibly expect to sell that for?

Mr. Smith: The market right now is going through some major changes. We would be in competition with Northeast Utilities who had just announced that they have a number of units available and U.I. just did a mailing to all the customers in New England. I would hope to have a better handle on thinking that the current price is somewhere in the range of \$60 kw/yr. for capacity. On top of that there will be some transmission which will be at the obligation of the purchaser. The market is saturated right now and it is a buyer's market.

Mr. Robert Beaumont, P.U.C. Commissioner: Tom, if you were talking about the \$60 kw/yr., what you would be talking about is something that is 8 megawatt and it is available of which you could secure the contract for, I believe that you would be talking about something along the order of \$480,000 as far as additional potential income. The amount extra that we could earn assuming we could secure a contract is dependent upon the market price at that time. The off-system sales are not considered in any of the scenarios that we are looking at in terms of economic analysis that have been done in order to go ahead and try to compare apples to apples as closely as possible.

Mr. Parisi: You are very set on the future as far as the price going up. Am I correct? You don't want to accept any of this information as far as the demand going up for the future. I question how you.....

Mr. Rinck: I am not saying that we are not accepting that the demand is going to go up....those projections are reflective of what the members of NEPOOL are planning to.....capacity additions. As we solicit members of NEPOOL and other municipals, potential customers for power, we have to try to approach them as a customer based on what their needs are. I am not questioning your projections at all.

Mr. Parisi: If there is going to be an increase in the demand, we will not be able to take part in any of that with what you are proposing, will we?

Mr. Smith: We will be able to sell the 8 megawatts. We don't have the ability to sell power now. At least until the end of this contract we will have 8 megawatts unaccounted for. Maybe we want to recapture that at the end of 1997 and have a right of recall in five years in any future contract we enter into.

Mr. Parisi: I don't see any consideration for long-range in this proposal.

Mr. Smith: The 40 has some in there even if it is only 8 megawatts, there is some in there for the future.

Mr. Parisi: How long will this system run?

Mr. Smith: Life expectancy? 20-25 years.

Mr. Parisi: I don't see 25 years of future in this. I see maybe 10 and then I see us doing something else to gain more production or whatever.

Mr. Smith: We said way back when that there could be some modification to this unit to go into combined cycle.

Mr. Parisi: What would that cost us?

Mr. Smith: I'm going to say \$5 million dollars. That was based on utilizing part of the old Pierce Plant assuming that.....

Mr. Parisi: I understand, how long down the road would that be? Maybe 10 years?

Mr. Smith: It could vary, it could be 5 years, it could be 30, it was left as an option.

Mr. Parisi: My point is, maybe would it be better for....we are building just for the now, not for the later.

Mr. Beaumont: But then you have the capability to then go to the combined cycle.....there is no doubt about it, it will be another \$7 million, but it is a matter of.....

Mr. Smith: There is another option you are not considering. You may be able to negotiate a better baseload contract that frees up some of that 32 megawatts of capacity. Maybe you will only use 20 for peaking, now you have 20 for off-system sales.

Mr. Parisi: The only one that we can really bet on if we build this is what we are going to have.

Mr. Smith: They only two givens that you have are the size of the unit and today's contract. Everything from there on is projections.

Mr. Holmes: You stated that you have a potential customer for the 8 megawatts. If you get that customer then you are locked in for 20 years with no hope for demand without spending another \$7 million dollars. I think that is the point Mr. Parisi is trying to make.

Mr. Smith: We would structure any contract to take that into account. Perhaps limit the duration.

Mr. Holmes concurred with Mr. Parisi's point.

Mr. Gouveia stated that the thinking behind the proposal seems to be driven by the conditions of the present contract.

Mr. Smith: The present contract and the options that would be available to us in the future.

March 5, 1991

Mr. Gouveia: After 1998?

Mr. Smith: Yes.

Mr. Gouveia: Do you have any guarantees that in 1998 Northeast Utilities would enter into a contract that would provide for some sort of a peaking provision?

Mr. Smith: No. But Rider A is really a rate mechanism that gives you two options. We don't have to use Rider A today. We could choose to generate day in and day out to cut our demands in the operating mode. That is expensive for the Pierce Plant. If we had the gas turbine a few years back, we probably would not have taken a Rider A option.

Mr. Gouveia: Tom, it is not \$1.8 million it is \$1.3 million, in order to get the \$1.8 million you have to build a facility that generates 32 megawatts. If at a point in time your facility is capable to efficiently produce electricity, you may tell Northeast Utilities, "thank you for your credit but we are going to generate and perhaps get a little better deal out of it than what you credit us with".

Mr. Smith: The economics are there, yes. We would say, all we want from you is 60 megawatts. Today, all we buy is about 75 or 80 from N.U. We may compare prices with U.I. or NEES.

Mr. Gouveia: So the bottom line is that in order to continue to provide this utility division with this flexibility, propose to spend \$20 million.

Mr. Smith: It is \$18 million, it already has a cushion built in.

Mr. Gouveia: It is \$17 million just for the turbine and the work related to the turbine. Additional costs will be added on for further construction work. My biggest concern is, what is the benefit that the average household will gain? Someone who uses 700 kw. hours of electricity per month?

Mr. Smith: \$10,000.00 to an average residential user is worth \$.14 per year. \$100,000.00 is \$1.40, and \$1 million is \$14.00 per year.

Mr. Gouveia: I know that your concern is the overall structure of the facility, I don't blame you. It is interesting that right after the last meeting, Iris and I attended an Economic Development Committee meeting and they were talking about benefits that the Town provides or doesn't provide to different corporations to move into town. I thought the Town was in fact offering some good incentives. I mentioned that we had a pretty good school system, an Electric Division whose rates are cheaper, and so on and so forth, and I was shot down. I was told that the electric rates to large customers are much higher in Wallingford than in Meriden.

March 5, 1991

Mr. Smith: I would dispute that. Our industrial customers are at a 6 or 7% differential.

Ms. Papale: It was mentioned exactly the way Peter said. We were sitting next to each other. I was very surprised. We questioned it and my last statement to Peter was, "I wish you would call Ray or talk to him about it, because something is not correct here."

Mr. Gouveia: It was not just one person making that comment.

Ms. Papale: There was someone from F.I.P. there and some others.

Mr. Gouveia: One started and then they all concurred.

Mr. Smith: I am shocked at that. A large company in Wallingford who has an office or operation in Waterbury gave me their numbers and we are about 9 mills cheaper. We have customers who perhaps pay more in Wallingford than do in new territories because we have different rate structures. Ours is more mill factor sensitive. We have higher demand rates, lower energy rates. If someone is a low load factor customer, poor user, short-term user, there are places, times that users will have higher rates here. That is out of the norm as opposed to the average. I would challenge that.

Ms. Papale: I would like you to challenge that.

Mr. Gouveia: Can a large consumer contract directly with Northeast Utilities to bring electricity to them in Wallingford?

Mr. Smith: Not to Northeast Utilities. I think that they can make arrangements under the new _____ regulations with an independent power producer. We have an exclusive franchise that Northeast cannot come in and do that.

Mr. Gouveia: If you do not go with combined cycle at this point, are you going to let infrastructure that exists now deteriorate to the point that it will be very expensive to do it in the future?

Mr. Smith: It is a very good question. You would have to look at and say, is it feasible to mothball the units with the potential that it is going to happen. If you assume that it can happen within 5 years, you probable would. If you assume that it is going to happen in 10 years, it is not worth the continued upkeep and investment that you would have to make.

Mr. Gouveia: Once you make a decision, you have to make almost a clear cut decision one way or another.

Mr. Smith: You have to cut the umbilical cord. Some professional opinions will have to be sought to see what is salvageable out of that plant.

Mr. Bradley: Are you inferring that natural gas is the primary fuel for the combined cycle?

Mr. Rinck replied but his comments were inaudible.

Mr. Bradley: The initial capital outlay is \$16.6 million for the project costs with \$9 million equity for a total of \$17.6 million, is that correct?

Mr. Smith: No.

Mr. Rinck once again replied.

Mr. Zandri arrived at 6:29 P.M.

Mr. Bradley: What is the total project cost and debt service across the 20 years, looking at it as a 20 year project?

Mr. Rinck gave a lengthy explanation on the project cost and debt service without being able to give an actual or estimated cost.

The Chair declared a 5 minute recess prior to the start of the Public Hearing.

SPECIAL
TOWN COUNCIL MEETING

MARCH 5, 1991

7:00 P.M.

A meeting of the Wallingford Town Council was held on Tuesday, March 5, 1991 in the Robert Earley Auditorium of the Wallingford Town Hall and called to Order at 7:13 P.M. by Chairman Albert E. Killen. Answering present to the Roll called by Town Clerk Kathryn J. Wall were Council Members Bradley, Duryea, Gouveia, Holmes, Lapale, Parisi, Solinsky & Zandri. Mayor William W. Dickinson, Jr. was also present as was Comptroller Thomas A. Myers.

The Pledge of Allegiance was given to the Flag.

Mr. Bradley made a motion to Remove from the Table the Scheduled Public Hearing on an Ordinance Appropriating \$472,000 for the Planning and Design Phase of the Town Electric Generation Expansion Project and Authorizing the Issue of \$472,000 Bonds of the Town to Meet Said Appropriation and Pending the Issue Thereof the Making of Temporary Borrowings for Such Purpose - 7:00 P.M., seconded by Mr. Parisi.

VOTE: All ayes; motion duly carried.

Mr. Bradley read the title of the ordinance into the record again correctly as follows: An Ordinance Amending an Ordinance Entitled, "An Ordinance Appropriating \$472,000 For the Planning and Design Phase of the Town Electric Generation Expansion Project and Authorizing the Issue of \$472,000 Bonds of the Town to Meet Said Appropriation and Pending the Issue Thereof the Making of Temporary Borrowings For Such Purpose"

March 5, 1991

Mr. Bradley noted that copies of the ordinance are available to the public at tonight's meeting and a copy of the ordinance will be attached to the Town Council Meeting Minutes.

Mr. Solinsky asked that it be noted for the record the entire cost of the project not to mislead the public into thinking that this will only cost \$472,000.

Mr. Bradley read Section I into the record as follows:

Section 1. An ordinance entitled "An Ordinance Appropriating \$472,000 For the Planning and Design Phase of the Town Electric Generation Expansion Project And Authorizing The Issue of \$472,000 Bonds Of The Town To Meet Said Appropriation And Pending The Issue Thereof The Making Of Temporary Borrowings For Such Purpose", and adopted by the Town Council on April 10, 1990 and approved by the Mayor on April 12, 1990, is amended to increase the appropriation and bond authorization by \$12,051,000, from \$472,000 to \$12,523,000, and to provide that the appropriation may be expended for costs of construction of expansion and improvement of Town electric facilities, thereby making the title of said ordinance read as follows:

"AN ORDINANCE APPROPRIATING \$12,523,000 FOR THE PLANNING AND ACQUISITION OF A COMBUSTION TURBINE TO IMPROVE TOWN ELECTRIC FACILITIES AND AUTHORIZING THE ISSUE OF \$12,523,000 BONDS OF THE TOWN TO MEET SAID APPROPRIATION AND PENDING THE ISSUE THEREOF THE MAKING OF TEMPORARY BORROWINGS FOR SUCH PURPOSE"

Mr. Killen invited the public to speak first on this issue.

Mr. Edward Musso, 56 Dibble Edge Road felt that the issue to discuss this evening was the upgrading of the Pierce Generating Station, not the issue of Bonding a total of over \$12 million since it was already passed in April of 1990.

The questioning was reverted to the Council.

Mr. Rinck continued his explanation of page 2 of the uniform annual savings. His microphone still remained in the off position unbeknownst to all present since he was audible to all in the chambers.

Mr. Bradley asked if the off-system sales were the same as the excess that was available to sell?, and Item #2 there are \$12 kw. per mo.?

Mr. Rinck:.....this is a high cost...

Mr. Bradley: And that is 3.6 per year? Did you ever reach a number on the entire project, a ball park figure?

Mr. Rinck turned his microphone on to respond: Project costs of \$16 million plus interest costs of about \$5.6 million, bring the total project cost to \$22,200,000.

Mr. Smith: That was on the sixteen six project with \$1 million equity assumption.

Mr. Bradley asked what it actually means to the Town if we are not a NEEPOOL Member?

Mr. Smith: We don't pay any costs to them. If somewhere down the road it is better to become a NEEPOOL Member and buy and sell on a daily basis and make those exchanges, we have those options, without generation we don't have that option.

Mr. Bradley: Is that a benefit?

Mr. Smith: It is a potential benefit, it is not beneficial to us today with out present contract. We gave up the right to join NEEPOOL without a 30 month notice.

Mr. Bradley asked if the other municipalities such as Norwich, Norwalk, Jewitt City, had generation capability?

Mr. Smith: They are supplied by CT. Electric Energy Cooperative.

Mr. Bradley: They don't have generation capability?

Mr. Smith: Yes, a couple of systems have generation. Norwich has generation and So. Norwalk does. They assign it to SEMEC. They are the responsible party for their power supply. They deal with SEMEC as we deal with N.U. Those without generation capability purchase power from SEMEC.

Mr. Bradley asked how the municipality that does not have the generation capability stack up against the Town of Wallingford from a rate structure, or what they charge?

Mr. Smith: Part of their costs are driven by their wholesale power costs, which are SEMEC's costs. I am a proponent of SEMEC, it is my opinion that we should have joined many years ago. So. Norwalk uses an inverted rate structure where their highest costs are at the low end and they have a lot of electric heating and I think that is the driving force behind that rate design. Norwich has significantly higher rates than us, Groton's industrial rates are lower. Groton has an unusual rate base that I think 70% of their rates or their energy users are three customers. I am not familiar with Jewitt City's rates nor East Norwalk's. Norwich is running 15-17% higher than us right now, residential.

Mr. Parisi asked if we were under the same structure as Norwich without the costs that we have now, would we, in fact, be better off or not?

Mr. Smith: If we were a member of SEMEC our rates would probably be the same and we would have the same costs we have now, maybe 1 or 2% higher, our rates would be the same.

Mr. Parisi: My point is, if you are not generating any power, how does that....and with the elimination of that cost, does that give you more of a return?

Mr. Smith: If we could buy from SEMEC, yes, we could still function. We could buy it all from N.U., but our costs would go up.

Mr. Parisi asked again: If we did not generate any power, and if we stopped generating power, and we just joined SEMEC, like Groton.....would the savings....eliminating the cost of not generating offset the higher cost of the power?

Mr. Smith: No, my opinion is no. I have not done "number-crunching" to verify that. In 1984 we had a study performed which showed that we should have joined SEMEC at that time.

Mr. Beaumont: Yes, there would be some cost savings in terms of direct costs with regards to Pierce Plant. We would not be making any investment in Pierce Plant as it stands today. Perhaps there would be some savings in personnel also.

March 5, 1991

Mr. Killen asked if there is a limit as to how much profit can be made by the utility?

Mr. Smith: There is a statutory limit that states that the rate should be designed to return between 5 & 8%.

Ms. Papale asked what benefit or consequences would occur if the Pierce Plant continued along as it is without any improvements?, and also, what would the Town gain by appropriating millions and millions of dollars for this turbine if it is the smaller one or the larger one, the size doesn't matter, what would the Town gain?

Mr. Smith: The levelized annual savings would be approximately \$3 million/year. The Electric Division's Operating Expenses would be reduced on a levelized annual basis by \$3 million/year (gross savings). Delaying the project could cause a \$16 million project to become a \$30 million project.

Mr. Smith reiterated all the options open to the Town in the future by investing the funds requested this evening. He did admit that leaving the Pierce Plant as status quo is an option as well, but certainly not a recommendation of his.

Mr. Smith: If this thing suddenly fizzles then we could go back to.....what's our options now, you keep coming up to the next intersection and say, "it's time to make a decision, which options are available to us?" We made the assumption that this project was going along, we have gone through the effort of designing, took bids, making of recommendations. It was a long process. We wanted to make sure. We revisited the feasibility study. A lot of things have changed. Steve's report, even though one year old, there is a dramatic change in that. It is significant. You have to stop and make sure that it all still fits. A lot of changes have happened in New England from February 1990 - February 1991.

Ms. Papale: Then the decision has to be made, are we going to do it now for this amount of money or wait and end up paying twice as much? You feel that it is in the future that we will really gain from this project?

Mr. Smith: That is correct.

Atty. Joseph Fasi stated that bond financed property has restrictions in order to insure that it is not, that the bonds are not issued for the benefit of private entities. With respect to electric output facilities, the restrictions would be that 10% of the bond financed property is the limit initially that could be sold to a private utility. If a portion of the facility is financed or paid for from other than tax exempt bonds, then that portion could be sold or transferred to private utilities or persons without regard to the tax exempt restrictions that exist under the code.

Mr. Holmes asked if this limits our number of customers?

Atty. Fasi: It limits the persons to whom you may sell your electricity and maintain the tax exempt interest on the bonds issued to finance the facility.

Mr. Holmes: Can we sell to another company in another town?

Mr. Smith: No, we don't have that authority.

Mr. Parisi asked why there were no figures listed for the last two categories for the TP-8 in the feasibility study on economics? Namely, first year production costs, present megawatt hours, equal uniform annual savings.....

Mr. Rinck: There is nothing under the first year production costs for the Frame 6. We did not run the numbers all the way, what we tried to do was just show the types of numbers that was in the initial feasibility study and the update vs. the most important.....that we could....for the life of the machine.

Mr. Parisi asked why there were no figures for the net present value?

∴ Rinck: We did not run that for the larger machine.

Mr. Parisi: Why wouldn't you?

Mr. Rinck: We were trying to show the fact that there is no significant gain for the investment in a machine based on the types of scenarios that we were running.

Mr. Parisi: How do I know that unless there is a figure in that category? How can you present me information to make a judgement with categories that are unfilled? How am I supposed to make a judgement?

Mr. Rinck: The judgement factor throughout all of this is, how much is going to be of savings.....

Mr. Killen: Bob has a good point. You have to show figures for all otherwise it appears as though you are showing figures that are favorable to your presentation.

Mr. Rinck: That is certainly not our intent.

Mr. Killen: Anyone has the right to suspect if they so desire to.

Mr. Parisi: With all due respect, I am not suspecting anything. I don't have the expertise so it is very confusing to me. I would prefer to have those numbers.

e wanted to know why it wasn't more cost-effective to purchase the TP-8 then to purchase the Frame 6 and have to upgrade at a later date at a cost of \$7 million?

Mr. Rinck explained that the additional cost to convert the TP-8 to a combined cycle would be roughly the same as converting the Frame 6 to combined cycle. You still have to add your heat recovery steam generators, and you still have to make the modifications within the existing Pierce Plant.

Mr. Parisi: Which one would run more efficiently in that capacity?

Mr. Rinck: If you convert the Frame 6 to combined cycle operations, you would gain about 15 additional megawatts. If you convert the FT-8 to combined cycle you will pick up an additional 10 megawatts, for a total of 62 megawatts. Initially, with the FT-8 machine, peaking power application, you have a higher output, in the combined cycle application your total output is still greater but you don't pick up as much because the FT-8 is more efficient. It has a lower exhaust gas temperature.

Mr. Smith: Another significant cost in the conversion is, once you go from simple to combined cycle, you have to install a C.R. on the equipment so that your emissions are controlled and you are talking another \$3-4 million. When you run it 24 hours a day, 7 days a week, your emissions are subject to more control by the D.E.P.

March 5, 1991

Mr. Smith: That is part of the major investment required whether it is an FT-8, Stuart & Stevenson, G.E., Westinghouse or anyone's. It is a component that comes with the conversion process.

Mr. Gouveia: How much money do we want to pay for a bargaining chip to create an availability of options in the future? For an immediate return on an investment, this is a lousy investment.

Mr. Smith: You are correct, if we put this in electric rates will not go down. We are protecting against how high they will go up.

Mr. Gouveia: In 1998 when our contract runs out with Northeast Utilities, how many different producers can we contract with?

Mr. Smith: 400 maybe. You would put your eggs in maybe two or three baskets.

Mr. Gouveia: What would you consider our demand to be?

Mr. Smith: 101 megawatts.

Mr. Gouveia: What would you consider to be baseload-attractive to a supplier?

Mr. Smith: I will guess, somewhere in the range of 75 megawatts and down.

Mr. Gouveia: You could still go out and get 3 or 4 different power supply companies to provide 30 or 40 megawatts which would probably be very advantageous to them and therefore, we could, in that sense, have a bargaining chip.

Mr. Smith: That is correct.

Mr. Gouveia: We will have options regardless of whether we spend the \$17 million or not. They may not be as good but we will have options. The decision we have to make is, is it worth spending \$17 million for the difference between those two options? The greatest asset that we have is our distribution system.

Mr. Holmes: What is the best machine to go with based on your internal projections on your bid price offsets? Based on the best case scenarios?

Mr. Thornton/Mr. Rinck: When we evaluated the bids, the best selection.....is the General Electric Frame 6.

Mr. Smith: If we could guarantee all unused capacity internally to be sold off-systems, the best deal would be the most capacity, the FT-8.

Mr. Holmes: When you adjust for the competitive bids, you adjust for the lowest heat rate and the output, what are the figures on all the machines because you only included two of those figures in your report to the P.U.C.? You did not include all of the figures.

Mr. Thornton/Mr. Rinck: That was based on the market survey that we did.

Mr. Thornton/Mr. Rinck: Under the turbo power marine offering we had a footnote that said it was not evaluated. I have the table with me and it does include turbo power marine offering being fully evaluated. If you include it, it becomes the lowest life-cycle cost, it becomes the base offering. All other offerings are a higher cost.

It is a higher initial cost investment, but over the life of the project, assuming that you can sell from day one the additional 20 megawatts, it becomes the most economical project. How economical is.....the next closest bidder would then be about \$1.7 million higher.

Mr. Holmes: When the contract comes up with Northeast Utilities, what kind of position do you want to be in when you go to the negotiating table?

Mr. Smith: It will not be a major difference whether we have a 40 or 50 megawatt machine. I would want to be in the strongest position possible.

Mr. Holmes: Is it reasonable to expect that if you have a 40 megawatt machine you will get a 40 megawatt capacity credit?

Mr. Smith: It is highly likely, yes. Or we may not want that. You have to look at the incremental cost annually of the next kilowatt hour at the 60, 61 & 62 megawatt levels. If the conditions and timing were different, I would have no problem recommending the FT-8. As your director I cannot come to you and say that. If you all choose to vote for me to spend more money and buy the bigger machine, we will live with it. I would have to go on record saying that that is not the machine that I am recommending. Maybe five years from now you will look like a genius and I will look like a fool because conditions worked out. I am willing to take that risk. It is my job to live with the decision and make the best of it and go on from there.

Mr. Bradley: In evaluating the no-generation side of this, what is the cost in terms, the bottom line when it comes to the shareholders, the taxpayers of the Town of Wallingford in rates and operation costs?

Mr. Smith: It is estimated annually to be \$3 million. It varies under different scenarios, could be as low as \$2.5 million or up to \$2.9 million or if we go with a big machine it is \$5 million per year. That is savings to the Electric Division which we, in turn, will pass through to the ratepayers.

Mr. Solinsky asked Mr. Smith if he had a price per kilowatt produced by the turbine as compared to purchase?

Mr. Smith: \$.065 for running this unit per hour. Northeast Utilities charges \$.027 baseload, \$.038 and \$.042, respectively for peaking on a time of day rate basis plus demand charges.

Mr. Solinsky: How about a combined cycle turbine, what would that cost?

Mr. Smith: Running on gas, an off-the-cuff figure is about \$.04-\$.045 cents. \$.035 is what the study shows for a production cost.

Mr. Gouveia: Can you emphatically guarantee that a peaking facility is going to get you better rates?

Mr. Smith: I will never guarantee it because I can never say never. Do I feel strongly that it would? Yes. Will you ever be able to quantify it? No. You don't know what you will be comparing against, you can only make these assumptions based on the knowledge that you have and where the forecasts or projections are going.

March 5, 1991

Mr. Gouveia: Could you also perhaps agree that the possibility exists that sometime in the future N.U. could turn to you and say they will not give us anything for peaking facility because they have so much electricity, they may in fact beg us to take electricity from them. Is that a possibility?

Mr. Smith: Sure. I can tell you right now that Northeast Utilities would prefer that we didn't build this plant. They have excess right now and want us to buy more from them and we are becoming a competitor of theirs.

VOTE: Zandri abstained; Papale & Solinsky, aye; all others, no; motion failed.

Ms. Papale made a motion to adjourn the meeting, seconded by Mr. Holmes.

VOTE: All ayes; motion duly carried.

There being no further business, the meeting adjourned at 8:56 P.M.

Meeting recorded and transcribed by:



Kathryn F. Milano, Town Council Secretary

Approved by:

Albert E. Killen, Chairman

Date

Kathryn J. Wall, Town Clerk

Date