Representative Policy Board

Consumer Affairs Committee

August 15, 2022 at 5:30 p.m.

Meeting Transcription

Stephen:

It's 5:40. So I'm going to call the August meeting to order of the Consumer Affairs Committee. And the first item on the agenda is our safety moment. Jennifer's going to put it up I guess. Yeah. It's about poison ivy, something very commonly around and easy to get exposed to and some good tips on how to deal with it. So take a look at that information. Jennifer always puts some energy into some good topics. Our second item is the... Well maybe we'll save that in case Jeff gets...

Naomi:

Mark.

Stephen:

Not Jeff... Mark gets on and we could vote on it later. So I'll turn it over to Rochelle who was kind enough to come today. Talk about 10 year model and some options for us to discuss. Appreciate your coming, Rochelle. Thank you.

Rochelle:

Thank you for inviting me. And what we want to do this evening is really get some input from the Consumer Affairs Committee if certain scenarios or formats that you're interested in seeing. And so what we did for this evening is we just prepared a very short presentation to just... There's really a reminder of some of the key focus areas that we've looked at in the past, what we did for the last year's modeling and to see again what input you might have for potential changes. So Jennifer, if you go to the next page, so what we've focused on actually over the last number of years is we look at depreciation and look at usually some alternatives off versus just putting the minimum depreciation into the model, looking at what it might do for internally generated funds, what it does from a rate perspective. We also have looked at, in the past, modifying depreciation as opposed to coverage, because we do think there's actually more flexibility with adding depreciation versus adding coverage.

We've also looked at the pension and often have done different scenarios, including what the distribution of sort of the dollars that we have contributed to our pension contribution when pension hits fully funded at the end of fiscal 25. So looking at how much of that should go into depreciation, how much should perhaps go into accelerating the contribution level on other post-employment benefits. We have also looked in the past at some scenarios. You might recall that we had been targeting fiscal 23 versus fiscal 25, but that ended up being, we thought, too much pressure on the rate payers to make that objective. And we've done some modeling with that. Last year might recall that we included revenues from commercial, including from the acquisition and new offerings and what the impact of that is putting that into the construction fund capital requirements over the last couple years, including last year was a main focus area, looking at different capital expenditure levels, also modeling both a more conservative as well as a more aggressive view of what kind of subsidies or grants that we might be getting to support the capital program.

Water revenue decline isn't so much a focus area other than we have continued to model at least a 1% year over year decline from a trend perspective and also have looked at changes in the reserve fund balances. As we look at these different scenarios, we're definitely focused on affordability and the impact on rates. That's a key focus of what comes out of our ten year model, what it means from the rate payers, both in absolute dollars, as well as percentages. As I mentioned, we've looked at how we should allocate the pension contribution post fiscal 2025. And another key focus is what are these different scenarios doing from a leverage perspective. As you know, that's definitely a focus area as we're working to get our debt leverage down. Go to the next page. This is just a little recap of what we did in fiscal 2021.

One of the changes that we made in 2021, and we definitely wanted to get input on this, we did take a little different approach where we had a base case and a target case. And then we worked our different scenarios off of those two different cases. In the past, we would do a base case and perhaps one or two recommended cases and then multiple scenarios. But the approach that we took last year, again, was once we did the two base case and the target case, we just did the scenarios off of those. So that was definitely a change. Although internally what we did, we started with the base case and then we built it up by making different changes until we got to what we called our target case. And the target case was definitely more aggressive than our base case, which tended to be a bit more conservative.

So our base case last year, the January, 2022 rate case, which is now behind us, was less than 7%. We kept our coverage at 114, we did distribute post fiscal 2025. We increased depreciation and increased our OPEB contribution. When the pension hit fully funded, we did go through and we plan on going through again, basically a full update to our capital improvement plan because capital is such a key driver of the financials and the rate, the impact on the rate payers. We put commercial revenues in from our July transaction as well as for WellSafe and we kept our rate applications every 18 months. For the target scenario, we actually got the January of 2022 rate application as well as the July of 2023, our rate application, which is our next upcoming rate application. Both of those were able to keep less than 7%. The overall was actually less than 6.5%.

We have our commercial revenues in the target meeting our 9.2 million by fiscal 2025. We had our growth fund being used, not just for funding of a capital program relative to commercial billing, but also for other potential transactions. And then we also assumed interim financing to help mitigate the rate impact of some of our large programs. I should mention, I think you might be aware, but if not, the state of Connecticut did agree to change our loan agreements. So we now can avail ourselves of interim financing through the drinking water state revolving fund for projects that are being funded in that manner. So that does give us more flexibility. But again, in the target case, we definitely did some modeling with using interim subordinate financing. And we did also put in a refinancing which definitely came to pass. So it was really a more aggressive view of the base case.

The different scenarios that we did were associated with the capital program, like a $30 million increase in capital, 10% year over year increases and as you know, we have been seeing increases in our capital program and we have some very large projects. So that's a refresh on what we did last year. Some of the changes that we made last year and what the focus areas have been in the past. So with that, we'll open it up for questions or comments or the thoughts you have. Are there particular scenarios that you would like to see? Would you like to see something a little bit different than what we've done in the past?

Stephen:

Any questions?

Mark:

What kind of money are you expecting from the... Is it WellSafe? What's it called? Well, whatever, what kind of income are you expecting?

Rochelle:

So it's going to start out relatively small, but what we had forecasted in our last model was pretty significant monies, net income coming in from that offering over the 10 year horizon. So it grew, and I see that Dennis is on, but from memory, it grew to over a million.

Mark:

Is that where you expect to get from this WellSafe?

Rochelle:

Over a period of time.

Mark:

I mean, how many members do we have now? Does anybody know?

Rochelle:

Right now we're still on basically in pilot mode. We're working on some billing, stability and other sort of infrastructure items to make sure that we're really ready to go on a broader scale.

Mark:

So that didn't answer my question.

Dennis:

So apparently we have under a hundred customers.

Mark:

Yeah. How many customers do we have?

Dennis:

We have under a hundred customers currently and we've paused selling any new customers until we get through to some of our challenges.

Mark:

I think you need a different pay scale and a different rate, but that's my opinion. All right. I just saw, I think for home safe, I mean home... Is that what it's called?

Rochelle:

HomeServe?

Dennis:

HomeServe.

Mark:

What's our pipe safe, isn't it $9 and change or something a month. Does anybody know?

Prem:

Yeah, I think depends on the product bundling, Mark. Right. But you're right. I think it's $9... Not 9. $6.65 or something, but that being said, we are looking at really, the prices, right? So if you have to feel more comfortable, I think you have the lowest pricing compared to HomeServe on anybody else in the market.

Mark:

Oh, I just didn't know. I didn't know. I couldn't remember. We're $6.65, you're saying?

Prem:

Yeah. I'd say about, yeah.

Rochelle:

It does depend on the product offering and if you have just water.

Mark:

I just saw an ad. I never saw an ad before. Just brought that up. Sorry.

Prem:

Yeah, no, no worries. I think it depends on the different bundling and options, different products we have, but-

Mark:

I think your pricing on WellSafe is way off, but that's my opinion. So-

Stephen:

Yeah, Rochelle, the-

Dennis:

I'm sorry, just real quick on WellSafe. Listen, we'll take any impact and feedback you want. To be very, very clear, there's only one other player that's really in the market and we're right at and a little bit less than their rate. And we had this thing fully outsourced underwritten with actuarial from an outsource perspective. So this wasn't something that we did in the blind. We did market comps as well as a full underwriting and analysis to get to those numbers. So happy to share perspectives and feedback because we always can learn, but that wasn't done quickly. That was done with some fair amount of due diligence behind that pricing and coverage.

Mark:

I understand that. I just don't agree with the due diligence. That's my opinion. Okay. I heard the same thing before. Thank you.

Stephen:

Rochelle, this is Steve. I appreciate that effort. And what goes into that? But I mean, even if it produces a million at the current spending or 30 just on the capital program, $30 million a year, it's still falling on the rate payers primarily with whatever sources you can come up with. A couple of questions, first of all, just an observation. The percentages are still part of a larger number each time they come up. So in real dollars, it's more to the consumers. It gets up there and the water revenue decline, I thought we were seeing a 2% each year. So does this vary somewhat?

Rochelle:

It does vary. The overall trend is still about 1%, but weather is a factor. And the other thing I will mention, I think we've talked about this prior. There were definitely some anomalies related to COVID. Actually our residential consumption was actually up. So we're watching that closely, but still overall we're expecting an overall trend, at least in the near term. And we're not alone in that. It's industry phenomena.

Stephen:

But we're likely, well, we may see a decrease after COVID here.

Rochelle:

Right.

Stephen:

It's still an unknown world, I guess, where it all sets out.

Rochelle:

It is. I mean, definitely COVID was an anomaly. I mean, we actually had a pretty high consumption, residential in particular, in fiscal 21, where we forecasted a reduction in fiscal 22. We're running a little bit higher right now than what we forecasted. But again, weather can come into play and other things can come into play as well. So we're trying to watch the patterns now that we're on monthly billing.

Stephen:

What are the other post-employment benefits? Is it medical there and what else?

Rochelle:

It's really medical for retirees based on... It's a closed plan. What it is depends on when you are hired, when you're retired, but that's something that you probably are aware we've been focusing on getting the pension to its fully funded level and then OPEB is behind that. So that's going to be one of the focus areas along with potentially putting more money into depreciation when we get to fully funded, because that's how we're generating internal funds.

Stephen:

And I mean, you've done well to try to keep the pension funded, but what are we seeing in terms of employees? There were a lot of long term employees that you expected when retire. Has that happened?

Rochelle:

We definitely are seeing retirements just based on the last actuarial report that we get. We are seeing retirements.

Stephen:

So that needs to be there.

Rochelle:

And of course our projections and our liabilities factor the best actuarial assumptions into all that. But we do want to get our pension to that funded fully funded level by the end of 25.

Stephen:

With regard to capital projects, I mean it seems like we're spending 30 million a year and it sort of, from what I can see, just addresses the priority projects on that list. Is that list endless or is there some point where we may have a pretty good hold on what needs to get done, the very large projects?

Rochelle:

So actually, our capital program for the last few years have been well above $30 million and we're projecting in the next number of years actually to be well above that. And that's due to all the projects that we have going on, some very big projects going on. We are planning on doing another and going through another sort of almost bottoms up in preparation for the model because that's such a key driver of rates in our financing requirements. So we are going to go through almost a bottoms up similar to what we do with the budget to get the updates that... We have the Whitney Dam going on. We have West River, we have the CIS project if it's approved and infrastructure is definitely aging, so that's definitely a key focus area.

Stephen:

You've suspended the pipeline, correct?

Rochelle:

Temporarily. It is, though, towards the end of the five year and I would expect it would be in the ten year, but that's an ongoing evaluation that's done.

Stephen:

Okay. Do you know if we're sort of replacing pipe at the same rate we were, the number of leaks or that whatever your criteria are?

Rochelle:

Yes. And we do have capital pipe projects definitely within our budget. We have actually a couple that are being funded by our green bonds that we issued in January.

Stephen:

Great. I don't know. My main concern is just what has to get spent every year for all of the things that maintain the organization and what efforts are conducted to try to offset that or avoid those particular costs in terms of looking at other, I don't know, just a different approach to the way things have been done.

Rochelle:

So I think Steve, along those lines, there's a couple things, obviously with the commercial efforts, that's all about transferring money into the construction fund to help offset the cost and not have to finance and mitigate the rate pressure, so that's a key initiative. The other thing that we are also doing is we are pursuing getting subsidies, not just from DWSRF, but also from other avenues. We submitted multiple applications for the fiscal 23 congressional directed spending, so that's in the works. We're optimistic that will get some monies there. So we are recognizing, especially with our increase in capital program, that it's putting pressure on the rates.

Stephen:

Have we seen any increase in a customer base with the kind of growth departments in New Haven, for example? Or is there anything anticipated in terms of more customers?

Rochelle:

The growth has not been anything of significance.

Stephen:

Okay. So we're getting customers, we're losing some others, kind of staying new.

Rochelle:

Yeah. Yeah. I mean, there's been some small incremental growth, but it is very small.

Stephen:

Yeah. Well at some point the whole west is going to have to move to Connecticut. I mean, it's just ridiculous what's going on out there. Anybody else?

Naomi:

Rochelle, where are we with that lead project? Are we still-

Rochelle:

We're actually refining our estimates associated with that project. We're also having ongoing discussions with drinking water state revolving fund, in particular about funding. We're working through all the guidelines, working on putting some infrastructure, meaning the project support that we need in place. So that's a key initiative. It's a key part of our fiscal 23 plan. We're assessing different options and scenarios. We also talk to Connecticut Green Bank as another alternative. So we're working through a lot with that actually.

Stephen:

Tony, you have any questions? Rich, anybody?

Tony:

No.

Rochelle:

I mean, if you do think of something or a particular scenario, they'll be going to the authority board in October and to the RPB committees in November. So we'll be working on it August, September.

Stephen:

Okay. Yeah. It's all basic stuff we've seen before. You do a good job with it. It's a formidable challenge, obviously without a way to anything that has to impact. It has to be pretty significant. I just don't know when the rates are going to hit a threshold when customers really start to feel it and provide some pushback. I don't know that that can go on forever. It's just a concern long term that I have because I keep track of my bills and water being one of them and I just see it. My other bills have sort of stayed the same, frankly, a lot of them, but this keeps going on and it's a critical utility we need to happen.

Rochelle:

I mean, we're doing what we can to try to mitigate by more grant money, the commercial cost efficiencies, but definitely understand, Steve, what you're saying.

Stephen:

What about the investments that the water company has? How is that? How's the market been in general?

Rochelle:

So actually, the good news from the investor perspective is that interest rates are actually up. So that's actually helping us from that perspective. The bad news is it's going to have an adverse impact when we go out on our next bond issuance, but right now we're actually doing better than budget on the investment income.

Stephen:

Very good. Any other comments? Members? Suggestions? Okay. Hearing none. Rochelle, thank you so much for coming. Appreciate it.

Naomi:

Thank you, Rochelle.

Stephen:

Thank you everybody else for participating. Okay. We can go back to the second. We skip the approval of the minutes. Well, is there a motion?

Mark:

I motion. I make the motion.

Stephen:

Thank you, Mark. Thanks Tony. Are there corrections, additions, omissions to the minutes? Hearing none. All those in favor?

Group:

Aye.

Stephen:

Opposed? Any abstentions? Meetings carried. Item four is the report of the OCA. Jeff.

Jeff:

Good afternoon.

Stephen:

How you doing?

Jeff:

So the OCA has been busy reviewing the CIS application and today, probably an hour or two ago, I submitted my memorandum to the RPB in conjunction with next Thursday, August 25th, continued hearing. And I usually submit it a week ahead of time. I wanted to get it a little bit earlier, give the RPB a few extra days because it is long. I apologize for the fact that it's longer than my usual memo, but obviously this is a pretty important project, not only from a dollars and cents perspective, but also from a functionality perspective because the customer information system and the customer relationship management components of it really impact consumers in a wide number of ways. And it's kind of an unusual application.

As I told you at a prior Consumer Affairs Committee meeting, I did engage Utility Solutions Partners from Washington DC, as a consultant to assist me in reviewing interrogatory responses, reviewing the application and the proposed alternatives, the five alternatives that were proposed in the application, evaluating the information that was provided. Once I had decided what my recommendation would be to help me with some additional recommendations so that the memo could be used as a tool, as well as my testimony to the RPB next week. So I don't have any active escalations. I don't have any active consumer complaints. So really the last month, my time has been spent focused on that CIS application and the work product that was submitted today.

Stephen:

Jeff, is this your final memo on this? Was this a memo for this or second part of the hearing? Or is this your final memo on this project?

Jeff:

It's my final memo.

Stephen:

Okay.

Jeff:

Yeah. I had waited because I had talked to you and to Mario about this, Steve, we wanted to open the hearing in July, but keep it open because I had submitted 37 interrogatories and the authority did the best they could to get me responses, but I got the responses in the middle of July and I wanted my consultant to review them. And I didn't want to just rush and submit a preliminary memo. I wanted to wait until I had all of my I's dotted and T's crossed and then just get you one memo. And that's what I submitted today.

Stephen:

But we still haven't had the second hearing.

Jeff:

Yeah, it's next Thursday.

Stephen:

And more questions. And I don't know who else would sort of contribute, but okay. You answered the question. No consumer comp issue. So that's good.

Jeff:

No, it's very quiet.

Stephen:

I had a few things, Hamden residents that came to me and I talked to Prem about it and he followed up on it and took care of it. So all of that is going well.

Prem:

Thanks Steve.

Stephen:

Yeah. Yeah. Any questions for Jeff? So Jeff, you're done with the consultant?

Jeff:

Yeah.

Stephen:

On this project. Okay.

Jeff:

Yes I am. Yep.

Stephen:

Very good. That was a lot to address. So I'm take a look at that. Anxious to see what you have to say on it.

Jeff:

Well, it's 14 pages single space. So my suggestion is read it in the morning.

Stephen:

Well, regarding-

Jeff:

Read it in the morning, rather than night time.

Stephen:

Hello? Am I back? Can you hear me? Am I back?

Jennifer:

Yes.

Stephen:

Okay. We'll move on to item five, which the approval of the OCA bill for July, 2022.

Naomi:

I move.

Stephen:

Thank you. Any questions for Jeff on the bill? All those in favor of the bill.

Group:

Aye.

Stephen:

Any opposed? Any abstentions? Jeff, your bill's approved. I assume we have the same people for August, Mark and September, Tony. Yes. For the five member Authority meeting. Okay.

Mark:

Jennifer will send me all this stuff what time it starts and everything.

Jennifer:

Yes. I'll get that over to you.

Mark:

Okay. Thank you.

Stephen:

Our next meeting in September is on the 19th at 5:30. And the next item on the agenda is any new business. Does anyone have any new business? If not, I'll entertain a motion to adjourn.

Naomi:

So moved.

Stephen:

Thanks Naomi.

Tony:

Second.

Stephen:

Thanks Tony. All those in favor?

Group:

Aye.