

Norwich Ratepayer Representative to CMEEC Annual Report to the City Council

This report is my summary of the most significant events that occurred over the past year with CMEEC from my perspective as the Norwich Ratepayer Representative on the CMEEC Board of Directors. Like last year, I've provided some basic information about CMEEC and my role to ground everyone.

CMEEC's mission

CMEEC predominantly purchases wholesale electricity on behalf of six municipal electric utilities in Connecticut. CMEEC's stated mission is to provide affordable, reliable, and sustainable energy solutions and to provide world-class energy procurement, production, transmission, and comprehensive specialty services. CMEEC has assets that generate electricity in strategic niches which are intended to lower the cost of electricity to the member utilities.

Ratepayer Representative's Mission

Connecticut State law established (in October 2017) the ratepayer representative role and required that the ratepayer representative not be a utility employee or utility professional, and that other qualifications are set by the municipality they represent. Our Norwich ordinance (#1762) requires the representative to be without conflicts of interest, be a professional or otherwise able to be of assistance to the Board, and be able to make the commitment to the Board. Neither the state law or Norwich ordinance say anything about what the representative does except serve on the CMEEC Board of Directors. As far as CMEEC is concerned, I am a Board member equal to any other Board member except on decisions involving how the member utilities choose to financially support or invest in projects. The utility heads make those decisions.

As far as I'm concerned, I am there to understand and challenge how CMEEC makes decisions and how CMEEC functions. For example, I can challenge how costs are accounted for and reported. I can ensure that audits are routinely conducted and a forensic audit is conducted every five years. I want to understand that processes are in-place for proper function and accounting. Most importantly, I want to know that CMEEC performance results in reliable electricity at the lowest reasonably achievable cost.

CMEEC expects board members to serve on committees, preferable at least two. Last year I served on the Budget and Finance Committee and on the Risk Committee. This year I am serving on the Compensation and Personnel Policy Committee and on the Legislative Affairs Committee. Between the Board and the Committees, I attended 22 meetings last year. Committee meetings are typically two hours and Board meetings are typically three hours and all meetings take place during normal weekday business hours.

Cost Performance

In 2020, CMEEC continued to procure wholesale electricity and deliver it to the member utilities at a rate significantly below the benchmark. CMEEC used its assets to produce electricity in niche applications to further improve their cost performance compared to the benchmark. CMEEC has performed similarly well for years. The benchmark used for tracking performance is Eversource.

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When CMEEC undertakes a project (like a solar farm), they obtain financing to pay for the associated acquisition of equipment and construction. Once operational, the revenue from the project covers debt service and provides income which offsets the cost of electricity for member utilities resulting in net benefit to the members over the life of the project. Rating agencies periodically review CMEEC to determine their creditworthiness. CMEEC succeeded in improving their rating from Fitch from A+ to AA- which essentially matches the Moody's rating of Aa3. This enabled CMEEC to refinance debt at a lower interest rate. The refinance led to roughly a million dollars per year savings.

CMEEC policy is to buy most of the necessary electricity well in advance of need. This greatly reduces the risk of a weather or disaster-related spike in energy prices. But the approach, called "hedging", doesn't always get CMEEC the best price. CMEEC employees noticed that in the "day ahead" wholesale energy markets, electricity could be purchased at very good rates. The Risk Committee recommended and the Board approved a reduction in the minimum hedging requirement so CMEEC could take advantage of advantageous day-ahead market prices. The expectation was the hot summer months were going to be their best opportunity. But COVID has altered the daily patterns of energy use. Even so, CMEEC successfully applied the policy in the latter half of 2020 and will find opportunity in 2021.

Continuing with the policy changes I observed in 2019, CMEEC finalized or made additional policy changes in 2020 which increase transparency in cost reporting and establish controls on spending. (travel, events, and retreats policy).

Budget Process

Serving on the Budget and Finance Committee was very informative. The draft budget presented at committee meetings was detailed and presented with rationale. It's almost overwhelming and it takes time to digest all the information. More importantly, every line item in the budget gets scrutiny. No line item is an automatic carry-over. Rationale for changes is always discussed. CMEEC staff came up with cost savings ideas that reduced or eliminated some line items. I observed the new CEO challenge and question CMEEC staff on the basis of the budget. You may recall that the current CEO, David Meisinger, was newly appointed in late 2019, so this was his first time through the CMEEC budgeting process. He gave it a critical evaluation from a fresh perspective.

COVID-19 Challenges

Shortly after COVID-19 restrictions were put in place, CMEEC did some stress testing, i.e. financial math exercises to understand how CMEEC finances would handle COVID induced changes to the marketplace. The exercise was mainly to understand the impact of the loss of revenue from businesses shutting down. The postulated extreme circumstances never materialized but it was good to see CMEEC working to get in front of the pandemic and formulating a plan.

CMEEC staff worked remotely to the extent they could. All Board and Committee meetings were conducted via Zoom starting in March and continuing to the present. Despite this, CMEEC performance did not change. Every CMEEC function continued unabated. Committees adapted to the Zoom meeting format. The Board met as scheduled and functioned as planned.

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Legal Issues

There has not been significant progress on the pending criminal and civil trials against the former CEO and other individuals. The criminal trial must go first and it has been delayed multiple times. COVID-19 is hampering progress. It's somewhat dismaying to watch the legal issues drag on. There has also been little progress in the legal action against the insurance company who sold CMEEC their Directors and Officers (D&O) policy. CMEEC believes the D&O policy should be paying for significant portions of the legal fees incurred over the civil and criminal trials. The insurance company disagrees.

The legal issues are not a distraction to the Board or to CMEEC staff that I can see.

Strategic Plan

With an acting CEO for over a year, CMEEC had not devoted significant attention to long term plans. Consequently, preparing a strategic plan was one of the imperatives for the new CEO. I have read on my own and heard from CMEEC that the electric power industry is entering a period of rapid change and it is necessary to be thinking and planning ahead for change. CMEEC staff and Board members put a lot of effort into developing a strategic plan last year. In general, the plan reaffirms CMEEC's commitment to low-cost electricity while putting itself and the member utilities in a position to navigate the anticipated changes.

Legislative Affairs

The State of Connecticut is considering establishing a goal to be carbon neutral or 80 percent neutral by 2040. There are number of issues that make this goal challenging. The State has asked for comment on their plan and CMEEC is providing comments this month. CMEEC wants to meet the goal but needs more latitude than a prescriptive regulated solution. Industry experts almost uniformly say that the wholesale energy market needs an overhaul before industrial scale renewables and green power are viable. And the transmission grid will need significant upgrades to accommodate electricity sources that behave fundamentally different from our current natural gas, nuclear, and hydroelectric sources of electricity. If not done right, achieving the State's goal could be costly. CMEEC will be watching to see if industry feedback on the State's proposed goal is taken into account.

Summary

I believe CMEEC is on a good path. The new CEO appears to be a good fit. He is sustaining the changes that have brought increased transparency and accountability at the Board level. I believe I have witnessed cost-conscious behavior in the CMEEC staff and CEO. And CMEEC is actively preparing for the future.

David Eggleston