

SECOND TAXING DISTRICT COMMISSIONERS

Regular Meeting Minutes
July 15, 2014

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| Present: | Mary Burgess Maria Borges-Lopez Mary Geake Mary Mann Cèsar Ramirez David Westmoreland Martha Wooten-Dumas | Chairperson Vice Chairperson |
| Also Present: | John M. Hiscock Lisa Roland | General Manager District Clerk |
| Public Present: | None | |

Call To Order:

Commissioner Burgess called the Regular Meeting of The Second Taxing District Commissioners to order at 7:06 p.m. on Tuesday, July 15, 2014. The meeting was held at South Norwalk Electric and Water, One State Street, Norwalk, Connecticut.

Acceptance of the Minutes:

Commissioner Burgess: "I would like to call the Second Taxing District Commission Regular Meeting to order Tuesday, July 15th at 7:06 p.m. and I need a motion for Acceptance of the Minutes."

Commissioner Borges-Lopez: "So moved."

Commissioner Ramirez: "I would like to second with one correction on the minutes. I might be wrong, but I don't believe I repeated myself so many times. I thought I might have written it down. Yes, on the page 5. 'I have this, I have this and I have this'. Unless I had fallen asleep and kept repeating myself, I don't know. So that is the only correction that I would like to...I think I repeated it only once. Go ahead." [Directed at Commissioner Mann]

Commissioner Mann: "You were pulling...turning the pages and saying I have this one and I have this one."

Commissioner Geake: "Yes."

Commissioner Mann: "You were turning the pages, I remember that, yes."

Commissioner Ramirez: "That was what I was referring to?"

Commissioner Geake: "You were saying that."

John Hiscock: "I guess it was a case of trying to track down what actual documents because I was wondering back and forth."

Commissioner Ramirez: "If that would be the case then you have noticed it and I appreciate it very much. Thank you. She should be my partner in my other business."

[Laughter]

Commissioner Ramirez: "Ok, yes mam."

Commissioner Burgess: "Alright, all in favor?"

Commissioners Unanimously: "Aye."

Commissioner Burgess: "I have to abstain. I wasn't here."

Commissioner Westmoreland: "I am abstaining because I wasn't here."

Consent Agenda

Commissioner Burgess: "Is there a motion on the Consent Agenda, Electric Write-Offs?"

Commissioner Westmoreland: "So moved."

Commissioner Burgess: "Is there a second?"

Commissioner Geake: "I will second it."

Commissioner Burgess: "All in favor?"

Commissioners Unanimously: "Aye."

Commissioner Ramirez: "I have to abstain on that one because I have no idea what is going on with that because I didn't have a chance to see what is going on so...the write-off is what you are referring to right?"

Commissioner Burgess: "Yes."

Commissioner Ramirez: "Yes, I have to abstain on that."

Commissioner Burgess: "Ok, Regular Agenda now."

Regular Agenda

Commissioner Burgess: “Legal Counsel, John do you want to speak on this?”

John Hiscock: “Item 3, we received a letter from attorneys Tierney, Zullo, Flaherty and Murphy. The Annual Retainer Agreement, this is an item that is actually listed in the Charter that speaks to the issue of the Commission hiring general counsel on a year-to-year basis so that the beginning of each fiscal year we go through hiring legal counsel. Unfortunately, the retainer letter didn’t get to us until the 18th of June, so we didn’t have it for the June meeting. There is one change in the letter and that change is the change of rate for the hourly rate for professional services from \$220.00 per hour to \$240.00 per hour. The retainer amount is the same, \$10,000 retainer amount that we have had since we first engaged attorney Tierney, Zullo, Flaherty and Murphy to be legal counsel and that was quite some time ago. They have been general counsel to us for almost twenty years I think. I didn’t go back and look, I don’t know, but a very, very significant amount of time. The other provision in the Charter speaks to special counsel, which the Commission can engage for special projects but the language in the Charter is clear that we name a firm as general counsel. I have had no reason to make any request to change and nobody on the Commission has made any comments to me that they were dissatisfied with legal counsel but here is the standard retainer letter. I can answer any questions. We can discuss it. Whatever you feel at this point.”

Commissioner Ramirez: “Through the Chair if you don’t mind?”

Commissioner Burgess: “Yes.”

Commissioner Ramirez: “I usually like to read it for a little more details and apparently since I just got this letter, my simple question with this retainer letter is this on an annual basis or every two years or how does it go?”

John Hiscock: “Every year, once every year and we do it at the beginning of the fiscal year. Normally we would have done it in June but the letter didn’t arrive.”

Commissioner Ramirez: “And its \$10,000 per year?”

John Hiscock: “Excuse me?”

Commissioner Ramirez: “\$10,000 just for retainer?”

John Hiscock: “For the retainer.”

Commissioner Ramirez: “And they charge \$240.00 per hour?”

John Hiscock: “Per hour. \$240.00 per hour is essentially the tradeoff for the retainer. That is a relatively low charge for legal fees per hour in my experience and certainly based on all of the special counsel we have hired for special projects. The general fees are in the

\$300.00 to \$400.00, \$450.00 per hour. We do a significant amount of business with them per year.”

Commissioner Ramirez: “I am just...I am very happy with the attorney that we have but it is just a matter of protocol. I don’t know if there is any protocol that we have to submit a request of attorneys, meaning that we go for...”

John Hiscock: “We have not requested proposals from various firms.”

Commissioner Ramirez: “That is not a requirement by our Commission?”

John Hiscock: “It’s not a requirement...”

Commissioner Ramirez: “It is not a requirement?”

John Hiscock: “By State of Connecticut Municipal Statutes because it’s a professional service. You can negotiate professional services without requesting quotations.”

Commissioner Ramirez: “So this is the standard protocol that we have in the by-laws. So, nobody up there can be screaming saying wait a minute...”

John Hiscock: “No.”

Commissioner Ramirez: “I want to submit my bid also but you guys didn’t allow me or perhaps didn’t even request it.”

John Hiscock: “No.”

Commissioner Ramirez: “Ok.”

John Hiscock: “No, this is standard protocol and it’s very rare that anyone in a government form would request proposals for legal services because you are really dealing with a professional firm someone that you believe is qualified, knowledgeable and capable of doing the job so it’s the way it has always been done, certainly the way we have always done it, the way I am familiar with.”

Commissioner Ramirez: “Boss you are the expert on this subject so that is why I am asking. Thank you.”

Commissioner Burgess: “Yes?”

Commissioner Westmoreland: “Just a general question. Do we generally use up all of the retainer every year?”

John Hiscock: “The retainer is a flat retainer and it is not used. It is not drawn on. The retainer is simply an actual retainer. It is a \$10,000 payment and then from there on out it is \$240.00 an hour. So, if you took the discount...”

Commissioner Westmoreland: "So the \$240.00 doesn't go against the \$10,000. The \$10,000 is just a payment we give them and then they are at out beck and call and they bill us the \$240.00 an hour."

John Hiscock: "Correct. By the hour and what I would call a considerable reduction from normal legal fees."

Commissioner Westmoreland: "Alright."

Commissioner Ramirez: "I don't know how considerable it would be but it is just the same."

Commissioner Burgess: "Any other questions?"

Commissioner Ramirez: "When it comes to doctors and attorneys..."

Commissioner Burgess: "Maria?"

Commissioner Borges-Lopez: "I don't have a question. I would just like to motion to approve the firm of Tierney, Zullo, Flaherty and Murphy as general legal counsel based on the attached Retainer Agreement."

Commissioner Ramirez: "I second it."

Commissioner Burgess: "All in favor?"

Commissioners Unanimously: "Aye."

Commissioner Burgess: "Opposed, abstentions? Fine, PPA."

4. Power Purchase Adjustment

John Hiscock: "Ok, last month we spent considerable amount of time discussing the Purchase Power Adjustment that is necessary to cover our wholesale costs. I am going to hand out two documents that look a little bit similar. They are just simply spreadsheets. We are going to start with the one with the yellow band on top first, which is the Rate Stabilization Fund balance so we can talk about that and then that will lead into the document that I am handing out now which is the methodology that we use once we deal with the Rate Stabilization Fund balance to determine what the actual dollars per megawatt hours should be or cents per kilowatt hour depending on how you define it. Just to recap a little bit, the PPA, Purchase Power Adjustment, which is in our rate structure currently is set at zero cents per kilowatt hour. The purpose of the PPA, Purchase Power Adjustment is to cover the changes in wholesale power to SNEW. These are the marketplace changes that we have no control over. The PPA is defined as an integral part of our rate structure so that when we adjust the PPA it is not considered a rate increase, it is a pass through. It's a methodology that is used which is very common

and as you are probably aware by reading the papers, I know you don't see these bills, but an example is that each six months to a year Connecticut Light & Power and United Illuminating go to the State, they purchase a block of wholesale power and then based on the block of wholesale power in a portfolio they set the cents per kilowatt hour for the next six month period. What we are doing here is the same thing but we do the procedure slightly different. We only adjust it historically, the Commission can do it anyway they want, on an annual basis. The reason we do it on an annual basis is even though the cost of wholesale power in cents per kilowatt hour goes up and down every month and varies with the marketplace, customers get really mad when they have too many variables on their bill. An example is, each month each of you uses a different amount of kilowatt hours. So, if the kilowatt hours vary and the wholesale cost of power that we pass through to you varies every month, the bill gets extraordinarily confusing. You really can't compare month-to-month. An example is power in the summer could be 13 or 14 cents a kilowatt hour and in the wintertime it could be 5 or 6 or 7. Well, customers don't like that. That really annoys everybody. So we try to keep it stable and we go through this process of having what we call a Generation Services charge, same as CL&P and UI on the bill. Generation Services is the cost of wholesale power passed through to the customer. Now, there is another variable that we have all talked about in the past or most of us have is the Rate Stabilization Fund. Each month we pay CMEEC, our wholesale supplier, a specific either cents per kilowatt hour or dollars per megawatt hour, that is just a thousand times one versus the other, so we will talk in cents for now because that is what you see in your bill. About a year or so ago we were paying CMEEC about 11 cents a kilowatt hour and we were building money inside of our Rate Stabilization Fund, so that the Rate Stabilization Fund was increasing. The Rate Stabilization Fund is held at CMEEC. It is our money, our benefit. Essentially, the way it works is we pay the same amount every month and in the months where power is more expensive than what we are paying, our Rate Stabilization Fund declines and in the months where power is cheaper than what we are paying, the Fund increases. So, if you look at the very top of the page of the yellow bar spreadsheet, you will see the balance in the Rate Stabilization Fund month-by-month from October, there are zero's in the earlier months from October of 2004 through the month of April in 2015. And you can see it goes up and down and at one point we were negative in the Rate Stabilization Fund and when that happens CMEEC charges us interest at their cost of money, it is a small amount. And then we go through the process and increase or decrease depending on where we project this. For the most part, as you can see, from 2008 on, it has been positive. It has been as high as about \$1.5 million, I can see it at one point as high as \$1.67 million and it has been as low as, quickly scanning, I see one down around \$160,000 and month-by-month, you can see that it goes up and down and it varies. It is sort of like the bank that we draw from. When we get down to 2015, you will see May and June are in yellow. Those are estimates based on the projections made by CMEEC. It takes about two months to get the actual number and the calculation finalized. We did not alter this document. I probably could have had May turned into a firm number on the spreadsheet. I didn't because I didn't want to...we have been talking for two months, I didn't want to change documents on anybody. But as you can see, the Rate Stabilization Fund for 2014 is going negative very fast. It is going very fast negative because of the gas crisis this winter and the high prices of electricity that we were paying to CMEEC in the marketplace. So, obviously we can't continue that way. That is impossible. If you look at

2013 you will see that it was going positive by quite a bit. In November of 2014, it got up to \$1.8 million. It got high and we changed our billing rate to level it off and unfortunately once we did that the price of wholesale power went up due to the gas problem. So, these are the numbers that we use to determine what we should levelize our payments to our supplier. We get to make the decision because the Rate Stabilization Fund is our money. But in the end, we have to pay for the power and consequently even though we make the decision as to the levelized monthly payment, in the end the actual payment made is based on the market price of power. So that is the top of the sheet and it's pretty obvious that we need to do something and we need to do something relatively quickly to resolve it. So how do we go about doing that? Well, the rest of the spreadsheet as you look at it, has May of...or actually July of 2014 rolling out through June of 2015. Now, if you draw a line here through the spreadsheet, everything on the top is January, February, March, April and May because that is CMEEC's fiscal year, they use calendar year. Below that is our fiscal year, which is a July through June fiscal year. So, we took a look at various prices in order to...or various payments to CMEEC in order to determine, based on their budget, what the Rate Stabilization Fund will do. So, if we start sort of in the middle of the page, you will see in the right hand column an 8½ cents, that is per kilowatt hour and if we stayed at 8½ cents per kilowatt hour by the end of June in 2015, we would be negative \$1,936,933.00 in the Rate Stabilization Fund. That is no good because obviously we would owe \$1.9 million to CMEEC and we would be paying interest on it. So then we go down the page and we then said, ok if we paid 9 cents a kilowatt, what would it be? Well you can see it drops it to \$1.45 million negative. That is no good. We drop down to 9.5 cents a kilowatt hour and you can see it drops down to \$964,000 and then if we go to 10 cents, it drops to \$478,000 and if we want it to be positive, we would have to go to 10½ cents a kilowatt hour. Now, that is not where we are going to go with our customers, but this is the payment rate to CMEEC for power. The difference when we go to this sheet will explain it to you, but the difference is included in this price to CMEEC is transmission charges. Ok, and we will get to another spreadsheet, unfortunately it is not as easy to read that will explain that. So, basically what I am saying to you is, these are the payment rates to CMEEC to try to get the Rate Stabilization Fund positive but not too high. Now, this is based on CMEEC's budget, it changes based on market, but they are very good at projections and we have a fairly strong feel for that. Ok are there any questions about this sheet and actually how it is constructed and why? This is simply in engineering terms the mass balance. I mean it is simply dollars in and dollars out. It is like a tank going up and down or anything else you want to describe where your gas tank in your car is going up or down as you put gas in and you take gas out. So, relatively simple spreadsheet. Now, because the bill that we get from CMEEC includes Transmission Charges which are not charges for kilowatt hours of power, but they are set blocks of dollars that we have to pay to the transmission system, which is actually ISO-New England for power based on our monthly and our annual peaks. CMEEC bills us that way because CMEEC has the arrangement with ISO for Transmission Charges. However, we collect on our bill, on our unbundled electric bill which, you know we went through the rate increase about a year and a half ago, we collect for our Transmission Charges separately on our bill. So they are taken out. So, the purpose of this spreadsheet is to take the Transmission Charges out of the equation and if you look at each of these and you will notice, that the dollar amounts in the right-hand column match the dollar amounts or the cents amounts that we would pay CMEEC,

the same numbers 8½, 9, 9½, 10, 10½. These are the same ones that sit down on the right-hand side of the other spreadsheet. If you look at this portion of the spreadsheet, right here, you will see that there is a negative line in the middle of the spreadsheet in each of the groupings, each of the price groupings. And that red line is the same in each case. And the reason it is the same in each case is because the wholesale cost of power doesn't alter the Transmission Rate. So, we deduct the Transmission Rate out of the bill to calculate the actual cost of only the kilowatt hours of energy. Now, if you look above you will see a block of numbers right here in the middle that are all in black and they are the actual cents per kilowatt hour as it relates to the bill from CMEEC and everything related to generation. And you can see Fixed Costs Obligation is investment debt that we owe. Generation Services Charge is the actual price for energy. Then under it you have ISO and Federally Mandated Charges, which is essentially taxes. We have the Economic Development Fund, which we are accumulating money in. We have a Subtotal. And that is as we go across, the actual cost in cents per kilowatt hour. Two other things occur. We bill out power that we send to our customers, but it never matches the amount of the CMEEC bill because we have inefficiencies and line losses. Transformers cause line losses, there are other things that cause line losses. So, for every thousand megawatt hours we buy from CMEEC, we only bill our customers 900. So, we lose a certain percentage; 10 percent is high. Ok, now, we also lose it through inaccurate meters, theft and other things that occur in a distribution system. So we go through this calculation and we back out something that we call Distribution Line Loss. Those are the things that happen in our system that we do our best to minimize and I think you are going to find in the future that number is going to be lower because we are downsizing all of our transformers in the conversion project, so that number will be better. So, that number gets backed out. It is calculated and that number gets backed out. Now, the next number that gets backed out of this equation is Discounts Taken. Now, remember we get a bill and we give a 10 net 10 discount and three-quarters of our sales are discounted. That is how many people come in and pay within the ten days. So, whatever the kilowatt hour charge is to the customer, we don't realize that coming in because there is a discount on it. Not only is the discount on the kilowatt hours but it is also on all of the other charges. So, we go through this calculation and we take out an additional amount of money for discounts taken. All of this is necessary to try to determine what we should actually charge the customer after you take out the transmission charges and then add back the discounts taken and add back the line losses, so that is how we go about it. As an example, if you look at...let's take this number right here, which is the 8½ cents per kilowatt hour, the first one in this grouping. If you look diagonally down to the next column back, at the bottom...here is the relative position of the 8½ cents we would pay CMEEC. And if you look down, you will see a 0.07518, slightly over 7½ cents a kilowatt hour we need to charge so that we can pay CMEEC the 8½ cents. And that is important to know because when you get down to these numbers they are approaching and exceeding CL&P and we clearly don't want to do that. So, that is how we go through this calculation. And I should have maybe circled them for you and I didn't, but if we circle in length..."

Commissioner Ramirez: "It would be the same process of the others."

John Hiscock: "I am sorry?"

Commissioner Ramirez: “Same process with the others.”

John Hiscock: “All the way down the page, exactly the same process ok? So, if on this sheet we determined that we needed to pay as an example, CMEEC 10 cents a kilowatt hour, we would come over here and we would look at the 10 cents a kilowatt hour in this column and come diagonally down and we would actually charge our customers 9.143 cents a kilowatt hour. So, that is how we go through this process. Now, if as an example, we charged...we decided to pay CMEEC the 10 cents. Right now we are charging our customers 8½ cents and I am not going to go out to the fourth decimal place, but we are charging 8½ cents per kilowatt hour. If we determined that we needed to receive 91 cents...I am sorry 9.1 cents a kilowatt hour so we can pay CMEEC the difference is .6 cents a kilowatt hour. So we would set the PPA at .6 cents a kilowatt hour and we would be fine. We would come out with a Rate Stabilization Fund where we want it and we would then set the rate there. The customers would take the discount. That is fine because it is all calculated into the process, those who don't take the discount, lose it. There are a few other complexities that we don't want to get into too much here, but you know our residential rate has an inclining block structure. The more kilowatt hours you use, the more the price goes up. It is a small number but it does go up. So these are only the minimum price. But we set that kilowatt hour breakpoint way higher than the average customer uses. Any reasonable usage is covered by the lowest block. If you have air conditioning and you run it heavily all summer with a low set point, you are going to exceed that. You shouldn't be doing that. You should be careful and if you want to be that chilly, I hope you can pay.”

[Laughter]

John Hiscock: “And I don't mean to be sarcastic, but you know.”

Commissioner Ramirez: “It is what it is.”

John Hiscock: “It is what it is, exactly. Ok, so this is the methodology. If we decided that we wanted to keep the rate lower than that, we have a lot of cash in the bank and we could take money out of cash and literally take a loss. That is not a good idea. You can't sustain that forever. That is a mistake. You really can't sustain that. There is another thing that I briefly mentioned last month and we talked a little bit about this and it's in your packet after Tab 4, the excerpt from the Minutes on Page 9 of 18, smack in the middle of the page, there is a number of \$659,876. That is the dividend that the Board declared to each of the systems. That is our share. So we are getting a dividend of \$659,876 from CMEEC because they did a good job during the year and saved us money and also it's the profit we make on services that we sell to other people. We serve Wallingford, we make money off of them; we serve the Mohegan's, we make money off of them; we do other projects and CMEEC is continuing to engage in some market sales and every piece of profit that we make on that comes back to the systems who own CMEEC, the five of us. At the meeting where we declared the dividend, each of the systems kind of talked a little bit about what they would do with that dividend and really each of the systems said that it was likely that they would apply that to their Rate Stabilization Fund

because it just lowers the cost of power and that little dividend that we get lowers the cost of power. And while I didn't commit and no system really committed without talking to their Board that I am aware of, I did indicate it would be likely that we would take the \$659,876 and put it in the Rate Stabilization Fund. So, where do we go from here? I am suggesting and the \$659,876 I am suggesting goes straight to Rate Stabilization. It is a matter of sending a letter to CMEEC of election. And then if you take a look at the totals on this page, you would add the \$659...or you know essentially \$660,000. That would put us in the position of not completely wiping out the deficit and we are concerned that power costs are not going to be good this year again because of the gas situation. So, it's a concern. So essentially, if we apply it to the Rate Stabilization without applying anymore cash and we bill at CMEEC at the 10 cents, we would have a positive Rate Stabilization Fund by just about \$200,000...\$190,000 approximately for a positive balance and we would end up charging our customers 91 cents...9.1 cents per kilowatt hour. Where does that put us? It puts us in the position of having a positive Rate Stabilization Fund in the end of 2015, which is important; albeit relatively small, it doesn't need to be big, it just needs to be positive. And then next year you will go through the same process again and make the same kind of determination. Because we didn't do this in June and are doing it in July, it wouldn't be effective until the power consumed through August and the bill comes in at the end of the month of August so that would be the first time it would impact the customer. CL&P has published this 9.97 price per kilowatt hour for generation services so we will be able 8/10th of a...almost close to a penny cheaper than CL&P, not quite, $\frac{3}{4}$ of a penny less than CL&P, which puts us in a comfortable position with respect to our customers. We can still indicate that we are cheaper than CL&P and we will continue to be cheaper than CL&P. Where does it put us with respect to the market rate for people who choose an outside supplier? It puts us right in the ball park with those who choose an alternate supplier if you are in CL&P's or UI's service territory. I am sure you all remember that last year and the year before, the alternate suppliers were offering very, very low rates. And they do it for a couple of reasons. They do it to suck people in and hope they forget. They do it because at the end of the period and it's not a fixed period, but at the end of the variable period if you try to change it takes you almost two months to change and you are paying a higher rate as it progresses through their system. They are facing higher electric rates also. They buy in the same marketplace. So, if we charge at that level, we will be better than or equal to the best competitive suppliers around and we are going to have a fixed rate for the entire year. I think it's a comfortable financial position to be in. It puts our Rate Stabilization Fund where it needs to be. If we run into a situation where the cost of power was higher than anticipated during the fiscal year and we start to drive, even if we go in this direction, and we drive the rate or the amount in the Rate Stabilization Fund too low, we have a couple of sources of cash held at CMEEC that we can utilize not taking cash that is held with us. One is the Competitive Municipal Trust that I have talked about over time. The other is the Economic Development Fund, which has well over a million dollars in that. So, we have other than the cash, we have directly on our books, in our immediate control, in our investment banks. We have the ability not to draw on that, but to draw on reserve funds held at CMEEC. So we are in a very comfortable financial position. On the other hand, I don't want to recommend to you that we go any lower than that on the price for the customer. It would be nice but you know that's starts to drag down resources of cash which is a bad thing. We should do our best to cover the market rate cost of power, but

always setting that principle that we are going to be lower than CL&P no matter what we do. So, essentially my recommendation is that we move to a 10 cent per kilowatt hour payment to CMEEC and we set our electric rate price at 91..."

Commissioner Ramirez: "No, 901..."

John Hiscock: "Right, 9.143 cents per kilowatt hour."

Commissioner Ramirez: "91 cents."

John Hiscock: "9.143 cents per kilowatt hour. Slightly under 10. Decimals are tough because I think in dollars per megawatt hours and the conversion in my head is...you know I would simply say if I was dealing with this the way I deal with it, you know I would go \$91.43 cents a megawatt hour and I would be set, but I always have a little trouble."

Commissioner Ramirez: "Are you taking questions right now?"

John Hiscock: "Absolutely."

Commissioner Ramirez: "May I through the Chair please? When are we expecting that our new substation is going to go to full power?"

John Hiscock: "Full power will not be until sometime in September. We had planned to be on partial power on June 30th."

Commissioner Ramirez: "That is fine."

John Hiscock: "We are not."

Commissioner Ramirez: "Will this make any difference once the new substation goes on?"

John Hiscock: "Yes, yes it will."

Commissioner Ramirez: "So, would it be fair to say by next year that we will not be facing this issue again?"

John Hiscock: "If..."

Commissioner Ramirez: "Because it would be unfair to keep..."

John Hiscock: "If the cost of wholesale power stays within the limits as projected by CMEEC, yes we will be in a very comfortable position. If in fact the gas crisis becomes worse and I clearly know it is going to become worse before it becomes better due to some...I am not going to go there quite yet. I anticipate it to get worse and the price of power is going to go up and there is no doubt about it because of the gas issue. And you always have to balance price and environment. Politically we have driven out of business the Bridgeport coal plant, which was other than the nuke plant, the cheapest source of

power in New England. We have driven out the other 'Sooty Six' as they called them. You know Manresa doesn't run anymore."

Commissioner Ramirez: "Right."

John Hiscock: "New Haven Harbor doesn't run much anymore. Montville doesn't run much anymore and that's the price we are paying because we have settled on gas as an environmentally acceptable thing to do and we don't have the ability to get gas in New England. So consequentially the price of gas has increased dramatically and power is produced on not firm gas but what we call variable gas, market rate gas, so when we get into a situation where gas is short, the price of gas gets bid up and it becomes a very difficult situation. So, projecting going forward, no we are not going to be good nor is anybody else going to be good. The cost of power in New England is going to continue to rise significantly."

Commissioner Ramirez: "I hope I don't sound rude, but when we digest the issue of a new station and invested so much money right, it was the hope for the future, for the benefit of quality of competition so called or better services...price services in general to our customers. It appears to me and correct me if I am wrong, that apparently based on what you just said, that those now seem to be the...perhaps the services not interruptions of any matter like that unless something happens, we will be efficient, but when it comes to the efficiency of our financial issues, that our customers will be delighted to have, it seems to me that is not going to be the case. The second question at this point is, on the average bill, if we decide to do so and obviously running a business you have no choice, what would you expect to be a fair increase of any bill perhaps and my third and final would be, what is the difference between the commercial and the residential? Will there be any changes at all in the prices or will they remain the same?"

John Hiscock: "The Generation Services Charge is the same for commercial and residential, a kilowatt hour charge. If you use 700 kilowatt hours a month, which is generally average and we are going to increase by .06, I believe it comes to \$4.20 a month. I am trying to do my math real quick."

Commissioner Ramirez: "\$4.00 and what sir?"

John Hiscock: "\$4.20 a month increase to the customer."

Commissioner Geake: "And that was 700 kilowatt."

John Hiscock: "700 times .6 cents."

Commissioner Ramirez: "That is an average bill?"

John Hiscock: "It's an average bill."

Commissioner Ramirez: "What happens to the commercial, will it be the same?"

John Hiscock: "The ratio would be the same. The problem is their usage is all over the place."

Commissioner Ramirez: "Obviously, right."

John Hiscock: "Some of them are huge and some of them are less than residential. Small commercial businesses, little tiny offices are actually less than residential sometimes."

Commissioner Ramirez: "The reason I ask that question because we are looking into the new and I am pretty sure that some of you might be aware of what might be coming to the empty parcel on West Avenue, so called mall. And I have been in a couple of meetings and the whole philosophy and what they plan to do is unbelievable, it is really nice. And it is what it is and it appears that it is going to be going through. And at one of the meetings I made one of the corrections because they were saying they were going to go into the CL&P and I said well you are downtown, you are in the jurisdiction I believe, correct me, of SNEW, so therefore hoping that you will use local facility provided by South Norwalk Electric and company. And obviously through the meeting I guess, the statement was yes we will be utilizing SNEW. So, my question at that point will be, most likely they will probably be one of the biggest consumers in the south end, would that make any impact unless you have something else?"

John Hiscock: "Yes, it will have a significant cash impact. It will not require a large amount of investment and a significant portion of the investment is required to be carried by the developer based on the original development agreement negotiated between the redevelopment agency and French I believe was the first company that was the developer and then they somehow got involved with Spinnaker. I didn't look at the details."

Commissioner Ramirez: "Spinnaker and everybody else is out, it is a new company that came in, they polled the place and they are integrating different ideas from the community so it will not be the standard mall or box as it is called. It will be entirely a lot more different and I saw the new building. It is going to be beautiful. Very much integrated with the community."

John Hiscock: "But they acquired the development rights as it's related to the original agreement. So, they are the successor to the agreement."

Commissioner Ramirez: "But it changes an amendment that has been done so far so..."

Commissioner Burgess: "Yes?" [Directed to Commissioner Westmoreland]

Commissioner Westmoreland: "That is technically correct however, what they are proposing is not in line with the original agreement. They are going to have to ask for a new agreement with the city, a new LDA, which will pretty much mean that everything is open for renegotiation. So that maybe is something we might want to watch."

John Hiscock: "That is clear because the original development agreements spelled out exactly what they wanted and they couldn't attain that."

Commissioner Westmoreland: "And they are not building it."

John Hiscock: "And that is that but they are negotiating from a change of an existing document that they acquired."

Commissioner Ramirez: "We don't want to deviate so much."

Commissioner Westmoreland: "That is true."

Commissioner Ramirez: "My question is how much actually they would be assisting our District in reference to such a heavy income coming in and perhaps are we providing any type of discount or are they still within the...like everybody else, you pay before the 10th and this is what you pay?"

John Hiscock: "In broad terms I can say it's a plus because it is more kilowatt hours and the overhead is generally fixed. They are not going to cost any increase in overhead. The cost of the conductors I am presuming will be paid based on the original agreement but that's negotiable I guess depending on what happens with the agreement. I can say in broad terms, it's a plus. In broad terms it will bring in a significant amount of cash and that is great. I can't go much further than that because there is a whole pile of issues related to that, conservation measures, combined heat and power possibly, maybe request to draw money from our conservation and development fund for high-efficiency appliances, equipment, chillers and the other issue is we don't even know how they would go about at this point in time, dealing with the metering of the various spaces. And that really makes the issue extraordinarily complex. An example is the brand new building built by Spinnaker up the street at 20 North Water. Well, there is a hundred and something residential meters in the building and there is about twenty commercial for all the various spaces. So it's not one customer. It is a multitude of customers. So it is very hard to predict the exact impact even if they gave us a kilowatt or megawatt load. But, it would be hard to conceive of a situation where it would be a negative. That is about the best I can say and I believe it will be a significant positive. And to go back to your first comment, the financial premise of the substation is still covered exactly the same way it was because it eliminates the fixed charge to CL&P and the fixed charge to CL&P that gets eliminated covers the bond issue. So that economics doesn't change. The only thing that is changing is the wholesale cost of power."

Commissioner Burgess: "Are there questions from any other Commissioners? Yes?"

Commissioner Westmoreland: "I just wanted to confirm because this looks like we are going from 7½ cents per kilowatt hour to 9.1 cents for the customer, was that right?"

John Hiscock: "No, right now we are charging the customer 8½ cents per kilowatt hour. That is the base definition in our rate structure and that won't change. It is only the PPA that changes. The reason that the billing rate to CL&P is set at 8½ cents, which matches what we are charging the customer was because we were going so far positive so fast in the Rate Stabilization Fund that we were building a tremendous amount of cash there, it was preferable to have it directly onto our books, so we dropped from 11 cent payment to

CMEEC down to 8½ to work this out fast. Now, what we didn't count on obviously was the gas crisis. So we sort of reversing our position a little bit on that. That is the anomaly that you can see here on the sheet. Your observation is correct, but in reality that is not what happened because of the situation."

Commissioner Westmoreland: "But I just want to confirm what you said. The impact to the average customer is 5 bucks a month?"

John Hiscock: "In that range, yes."

Commissioner Borges-Lopez: "On average."

Commissioner Westmoreland: "So, it is relatively that we are not talking about a 20% increase in everybody's electric bill?"

John Hiscock: "No, not even close."

Commissioner Westmoreland: "We are talking about five dollars a month."

John Hiscock: "Yes, we are talking about just in generation services only."

Commissioner Ramirez: "When you are looking at the fixed income level of individuals you know, an elderly person, I mean \$5 is \$5 but still right, it is not \$20 or \$25."

John Hiscock: "Yes, we are talking about at 10 percent increase in just the Generation Services Charge and everything else stays the same. And when generation is about half the bill at most, you can see that we are talking about a relatively small number. And the comfort is, we are still below CL&P and that is the important number. I have said before, we are not below CL&P, we don't belong here."

Commissioner Ramirez: "And John, would it be fair to also say for the record that if we don't do anything in this direction, if we don't actually proceed in the way that you described it, we are going to be running negative?"

John Hiscock: "Yes, significantly negative. We will be draining cash."

Commissioner Burgess: "Any other questions Commissioners?"

Commissioner Geake: "Do we need to take an action...do we need to take an action?"

Commissioner Ramirez: "At this point...?"

John Hiscock: "Yes, you do need to take an action because if you wait another month, it continues to drain cash and that is not a good thing."

Commissioner Ramirez: "This is the same issue that you stated before. It does not need the public approval, is that correct?"

John Hiscock: "It does not."

Commissioner Burgess: "Commissioner Geake, you had your hand up."

Commissioner Geake: "I would like to make a motion that we accept the modifications to this new rate, our PPA and make it 10.01 cents."

Commissioner Ramirez: "No, it's not 10."

Commissioner Wooten-Dumas: "9."

Commissioner Geake: "Its .10; that would be the amount, although we would only be increasing it by .0914."

Commissioner Burgess: "Is there a second."

Commissioner Ramirez: "Let's make it clear so it reflects..."

John Hiscock: "0.09143."

Commissioner Ramirez: "Let's make it clear that it reflects..."

Commissioner Borges-Lopez: ".10 to CMEEC and .09143 to the customer."

Commissioner Wooten-Dumas: "Second."

Commissioner Burgess: "That is a second. Are there any questions on the motion, yes?"

Commissioner Borges-Lopez: "No, no questions."

Commissioner Ramirez: "She seconded it. Commissioner Dumas seconded it."

Commissioner Burgess: "Ready to vote. All in favor?"

Commissioners Unanimously: "Aye."

Commissioner Burgess: "Opposed? Abstentions? The motion passes."

John Hiscock: "And before you adjourn, when we make this announcement, I am going to make it extraordinarily, publicly clear that this is not a rate increase. It does not fit the definition of a rate increase and we are merely adjusting the cost of the Generation Services Charge to pass through the wholesale price of power to ourselves and that SNEW does not gain any additional dollars in their budgetary system by this. It is cash neutral to SNEW."

Commissioner Westmoreland: "Well, that is the part that you need to make clear because everyone is going to see it as a rate increase."

John Hiscock: "Of course."

Commissioner Westmoreland: "You won't win that argument but..."

John Hiscock: "You won't win the argument, but when the press asks me the percentage increase I am going to tell them there is no percentage increase whatsoever. That it is a pass through of the Generation Services Charge that we pay. I know I won't win the argument."

[Laughter]

John Hiscock: "But at least I will be firm and won't waiver."

Commissioner Burgess: "Is there a motion to adjourn?"

Commissioner Westmoreland: "So moved."

Commission Ramirez: "Before we..."

Commissioner Burgess: "Yes?"

Commissioner Ramirez: "Before we adjourn, it is not on the agenda but I just have a question pertaining to...and I don't know if it would be an executive meeting pertaining to LaJoie's. What happened to that situation...LaJoie's?"

John Hiscock: "LaJoie's is functioning fine. We are selling power to LaJoie's. The project is completed, done, they have been buying power since the beginning of the year. They have been curtailing their power when we tell them during the peak time periods. We had about 15 times which we told them to curtail and it's not for a day. It is usually between 11 and 3. It has been working out quite well."

Commissioner Ramirez: "It is bringing in the money that you expected, that is basically my question?"

John Hiscock: "They are not yet using as much as they had anticipated. Remember they gave us \$150,000 cash deposit, which the payments are working off."

Commissioner Burgess: "Excuse me."

John Hiscock: "So, we are in the neutral position, if they don't use it, we liquidate their deposit."

Commissioner Burgess: "Excuse me. Excuse me, this was not on the Agenda and there is a motion on the floor to adjourn. I would suggest that if you have questions like this that are not on the Agenda, that you call John directly rather than talk after there is motion to adjourn."

Commissioner Ramirez: “But this is a simple question. I know that John loves to be specific, but it is just a simple, simple question and I had made it before, I said please before we adjourn.”

Commissioner Burgess: “Ok.”

Commissioner Ramirez: “So, it is not that I want to get into the specifics of money, financials and all of that kind of nonsense...I mean good sense. It was a simple question, is it functioning, are we making money? Simple, yes, no, that is it. Thank you.”

Commissioner Geake: “I second the motion to adjourn.”

Commissioner Burgess: “All in favor of the motion to adjourn?”

Commissioners Unanimously: “Aye.”

Commissioner Burgess: “Opposed? None opposed. We are adjourned.”

Adjournment

The meeting adjourned at 8:15 p.m.

Attest:

Lisa Roland
District Clerk