SECOND TAXING DISTRICT COMMISSIONERS

Regular Meeting Minutes
February 19, 2013

Present:	Mary Burgess	Chairperson
	Maria Borges-Lopez	
	Mary Geake	
	Mary Mann	
	César Ramirez	
Also Present:	John M. Hiscock	General Manager
	Kevin Barber	Director Admin. & Customer Service
	Lisa Roland	District Clerk
Public Present:	Kara Murphy, Esq.	
Absent:	Sherelle Harris	

Call To Order:

Commissioner Burgess called the Regular Meeting of The Second Taxing District Commissioners to order at 7:00 p.m. on Tuesday, February 19, 2013. The meeting was held at South Norwalk Electric and Water, One State Street, Norwalk, Connecticut.

Acceptance of the Minutes:

Commissioner Burgess: "I will call the meeting of the Second Taxing District Commissioners to order on Tuesday, February 19, 2013 at 7:00 p.m. And I need a motion for the acceptance of the minutes of the Regular Meeting of January 15, 2013."

Commissioner Geake: "I will make a motion to accept the minutes of January 15, 2013."

Commissioner Burgess: "Is there a second?"

Commissioner Borges-Lopez: "I will second."

Commissioner Ramirez: "I don't know how this is going to sound but I was here only for half the meeting so I don't know if I should abstain…well, I think I should legally abstain for half of the meeting but the first part I agree with."

Commissioner Burgess: “Alright. Can someone else second it?”

Commissioner Borges-Lopez: “I already did.”

Commissioner Burgess: “Thank you. All in favor?”

Commissioners Unanimously: “Aye.”

Commissioner Ramirez: “Through the chair?”

Commissioner Burgess: “Yes?”

Commissioner Ramirez: “Before you start the Agenda, if you don’t mind. I would like the Commissioners and staff to excuse me for what transpired last meeting. Personally, as most of you know or got to know later on the reason why I had to leave but for the record I would like for you folks to excuse me. Thank you.”

Commissioner Burgess: “And I think we are all sorry about the reason you had to leave.”

Commissioner Ramirez: “Yes, it is a big family, you know. When something happens, everybody feels it.”

Commissioner Burgess: “Ok, public participation. Surely, you are not pretending to be public?’

[Directed to Kevin Barber and Kara Murphy]

Attorney Murphy: “No.”

[Laughter]

REGULAR AGENDA

Commissioner Burgess: “Ok, appoint Vice Chairman. I will accept nominations but I would also like to nominate Maria Borges-Lopez for several reasons. Her expertise in the areas of finance, her ability to come in here and put politics aside and to work in a non-partisan way, her ability to be very rationale and calm and also the fact that I believe that both parties should be represented in the leadership of this organization. So I proudly nominate Maria Borges-Lopez as Vice Chair.”

Commissioner Ramirez: “I would like to second that motion please.”

Commissioner Burgess: "Thank you. Are there any other nominations? No? Ok, all in favor?"

Commissioners Unanimously: "Aye"

Commissioner Borges-Lopez: "Can I vote for myself?"

[Laughter]

Commissioner Burgess: "You sure can."

Commissioner Borges-Lopez: "I proudly accept the nomination."

Commissioner Burgess: "Thank you. Ok, OPEB Reserve Resolution. You are on John."

John Hiscock: "Alright, I have been sending you information for your review. We have talked about this off and on for quite some time. If you remember, there was a comment in the Audit that we had not yet set up a trust and that is true. Normally the way to deal with this is you set the trust up, you then make payments to the trust in the amount of the ARC (the Annual Required Contribution) which includes the current cost of retiree benefits plus a thirty year amortization of the outstanding liability as of the date it was started. Started meaning the GASB 45 for an organization the size of SNEW, which I believe was in 2006. As you recall from the information I sent you, we hired an actuary to figure out our liability and when they first figured out the liability it was $9.4 million. I also assume you recall that for employees that were hired in the water company after 1992, they do not have any retirement health benefits. That was removed from the Employee Manual for the water utility in 1992 and for the electric utility, I believe it was early 2001; same situation. So right now we have somewhere around 60% of our employees have this benefit plus we have a large number of retirees who have this benefit that we have been paying all along. The Employee Manual does speak to the issue a little bit and says that in spite of the benefit it shall not be greater than the benefit to regular full-time employees. So if anything happened with respect to full-time employees, the retirees plan would have to match it. Obviously, it is subjective. There are different ages; they are in different plans for the retirees. Essentially, if they are over 65 it becomes Medicare Supplement F with a prescription rider, which is about as strong as the current plan for employees. For those employees under 65 who are retired, it is an Anthem point of service plan. Or is it Oxford? [Directed at Kevin Barber]

Kevin Barber: "It is Oxford."

John Hiscock: "It is Oxford. I have to get them all straight. It is Oxford and Anthem is the carrier for the mid-sup…ok I have gotten it all straightened out. The last audit showed that the liability has risen to $11.39 million and I am not going to read the information in the book, I am sort of quickly going through it for you. The other issue is the Annual Required Contribution has not been paid into a trust fund or a reserve and we have been pay as you go for the retirees so each year since the inception for our size utility we have been chalking up a $350,000 to $400,000 range liability and that liability is now showing on our books. The $9.4 million and then the $11.39 million recently doesn't show on the Balance Sheet, it shows as a note in the Financial Statement. However, since the 2006 phase in, the fact that we did not pay the full ARC, it is now a liability. And the liability as of the last Audit was $1.4 million. To offset the liability is important, obviously as we have credit ratings issues to deal with. Not only for our substation where bonding may be appropriate and may be necessary. The other issue is because we are in the electric marketplace, not on our own right now but through CMEEC, but if we are ever on our own, a credit rating is extremely important because if you sign with a supplier, your credit rating determines your level of collateral and it also relates to what they consider your credit worthiness based on your credit rating by the rating agencies. So it is kind of an important issue. I talked to Bob Bailey from Hope & Hernandez about the fact that we hadn't created the trust yet. And there was a note, a very specific note, in the Audit that said the trust had not yet been set up. Probably if we are back to the old management letter days, we would have been dinged for that but that doesn't happen anymore because we don't get management letters per say, we just get notices of significant and material defects or problems and we have none of those as it doesn't rise to that level. I spoke to him about simply setting up a cash reserve. A dedicated, commission voted cash reserve and to then fund that cash reserve out of the Budget. And when we get to the Budget we will talk about how much money would go in this year in the process. But the first step is to actually create, and there is a Resolution and an explanation and a series of memos in the Board Book under Tab 5 with the Resolution being the last two pages. Spelling it all out in you know the 'whereas' and the 'now therefore'. Basically it says in the end that we will create a Net OPEB Obligation Reserve. It will be a dedicated reserve, solely for that purpose. Now, because it is a Commission voted reserve for that purpose, the Commission could change it at a later date. However, once this is put in place and funds are put into it, essentially we would do a journal entry from cash and move it down into the reserve, and it is still a cash account, the Auditor will accept that as the first step towards a trust. I have gone through a lot of quick explanation. I have sent you some previous materials. So at this point, I am going to sort of respond to questions you may or may not have about this and we will go from there."

Commissioner Ramirez: "Through the Chair. I am trying to comprehend the first part of the employee's health benefits. So, correct me, if I am wrong. If I understood correctly, all employees prior to 1992 enjoy the benefit of a health benefit completely. What happened after that?"

John Hiscock: "All of the employees who are hired after 1992 have no continuation of health benefits upon retirement."

Commissioner Ramirez: "None at all."

John Hiscock: "None whatsoever; at our expense. They have whatever they would have outside of or whatever they arranged for themselves and that is for individuals who started their employment with the water utility. For those individuals who started their employment with the electric utility that cutoff date is 2002, very early in 2002."

Commissioner Ramirez: "It says 2001 here."

John Hiscock: "It might be 2001. I don't specifically remember all of the timeframes and resolutions other than approximately. And as I said I think about 60% of the current employees have retirement health benefits, about 40% do not. We cleared it with counsel when we did it both times. It was done to limit our future liability. It was done for financial reasons more than anything else or clearly for no other reason than that. If we had not done that the liability which is the unfunded…I can't remember all of the acronyms, but the $9.4 million and the $11.39 million would have been very, very, very significantly higher, probably double that amount. And that would then result in our ARC being probably double what it is now."

Commissioner Ramirez: "So, presumably you don't have too many of these employees that were hired prior to 1992? When these folks were hired after 1992 or 2001, they understood that they were not having any medical plan or health benefits at the end of their career?"

John Hiscock: "That is correct. It was put directly into to the Employee Manual. The Employee Manual is given to every employee that is hired."

Commissioner Ramirez: "So they took the job with the understanding that this will be done once their career is over."

John Hiscock: "That is correct."

Commissioner Ramirez: "Is it also correct for those that have the benefits when they reach the age of 65, our health benefits will become a subsidy for Medicare or vice versa?"

John Hiscock: "To be equal to where they are now, they would be required to pay for a single or a family, depending on their circumstances, Medicare Supplement F with the drug rider. Yes, they would end up paying that out-of-pocket. I don't know what the current dollar value is because I don't have it in front of me."

Commissioner Ramirez: "That is just fine. I was just trying to understand it."

John Hiscock: "It is in the, although I don't want to guess on the record because I am not sure but it is in the couple thousand dollars a year range. Several would be a better way to put it."

Commissioner Ramirez: "On the part 2, the money that you are referring to, is it to cover the deficit for this year or the past few years?"

John Hiscock: "It is to cover the deficit from…"

Commissioner Ramirez: "And the question would be how much will it affect the financials of the company itself by changing those numbers and putting them into a new account?"

John Hiscock: "Ok, I didn't bring along the information that I had sent to you with me, however, how is it going to affect the company this year? In our draft budget we have placed $800,000 for the ARC plus one-fifth of taking down the liability. If you go to the sheet that looks like this, it is explained in detail."

Commissioner Ramirez: "The reason why I lead into that is because the final question that I was going to have is, are we now looking into having our recipients or clients or customers subsidize this number in the near future. Is that correct; meaning an increase in simple English?"

John Hiscock: "They will be setting aside money to pay the current ARC and the accumulated OPEB Net Obligation, which is the amount we didn't pay in prior years. If you look at, and let me start with the top of the page. You have Net OPEB Obligation as of June 30, 2012 - $1.4 million. That is the audited number. So that liability appears on our Balance Sheet. Now, we then went through and calculated what it would be for the current year that we are in. And when we calculated it based on all of the actuarial information available…"

Commissioner Ramirez: "One minute please. It is on page 15 right?"

John Hiscock: "Page 15 correct, but it is 15 out of another document, but that is ok it is out of the Budget."

Commissioner Ramirez: "Out of the Budget? Is it this one here?"

John Hiscock: "No, no, no, I am sorry it is in both places. It is in here to explain this section and it's also in the budget document. So look at it in the Board Book."

Commissioner Ramirez: "Ok, do we have a page number?"

John Hiscock: "Fifteen in the Budget."

Commissioner Ramirez: "Ok."

John Hiscock: "Ok, you will also see that the sheet is a little bit different because we sent you a memorandum with an update to the Budget and that one [directed to Commissioner Ramirez] will help you. Ok, so it is $1.4 million in the upper right as of June 30, 2012. When we calculate it to the current fiscal year we are in we estimate that it will be $1.8 million as of June 30, 2013. These numbers come right out of our healthcare premiums and the work of H&H, the actuary and not to be confused with H&H for Hope & Hernandez. It is a different firm it just happens to be both H&H. The other firm was Hooker & Holcombe and it's explained in the Resolution. So then as we go down through this and you look at the budgeted fiscal year 2013/2014 as a draft amended, you will see a line and $413,000 and then you look at one-fifth of the obligation as of June 30, 2013, which is $366,000. So the total OPEB expense that we have put in the Budget is $780,000 rounded up to $800,000. So, I think to answer your question, $800,000 out of Revenues in the fiscal year that we are budgeting would come out of essentially ratepayer funds in both the electric and water utility. If we don't do this, what is going to happen is the liability on the Balance Sheet is going to get bigger and bigger every year by about $400,000 and we are going to end up with a large liability with no plan to pay it off. No plan to pay it off is not a good situation because it shows a material weakness. This is one of those things that you hear about why local and state governments are in tremendous financial problem. This and pension benefits is the problem; absolutely and totally the problem. Had we not ended the benefit quite a few years ago, our problem would be even worse than it is and it would be a bigger number. I think, and this is my personal opinion and maybe the auditors won't agree with it, allowing municipalities thirty years amortization on this was overly generous but it was done to avoid a lot of municipalities having a negative net worth, which is not a good thing. We are fortunate that we have a lot of cash. If we were just skimming by like more government forms where you really have no cash, where you just go from year-to-year like some people run their personal finances, which isn't good, and unfortunately some people can't do it any other way. We would have a negative net worth; we don't. If it was a shorter, more fiscally prudent amortization period, a lot of people would have negative net worth. This is a problem that has been brewing for a very long time. It is a problem we have all heard about and we need to, for our own long-term benefit of the District and obviously the two utilities and the ratepayers, simply need to start funding it and catching up with what we should have been doing since 2006. Had we been doing it since 2006 we would have had much more negative values in the water utility. And while that doesn't get measured in the rating because they look at it as an entity, it certainly wasn't a good thing. So we have been juggling cash against liabilities and now we have a plan to resolve this over five years. At the end of five years, presuming that we continue to do this and presuming that the budgets get approved with these dollars amounts in them, that liability will be zero five years from now. Now, that doesn't mean the big liability. It doesn't mean the unfunded actuarial liability, the $9.4 million and the $11.39 million in the letter. I am only talking about the $1.4 million soon to be $1.8 million that appears in the Balance Sheet. I am not talking about the note. I am talking about the Balance Sheet amount. I know these are difficult numbers to deal with and sort of difficult concepts because it is sort of not like real money that you look at that goes in and goes out. It is the calculated actuarially determined number with respect to liability."

Commissioner Burgess: "Any other questions?"

John Hiscock: "What would happen is essentially we would open a bank account and everything that we put into it stays in there and the interest accumulates in it and it becomes part of the arrangement. Iit will appear as cash and will appear as a designated fund and as we work with counsel to set it up the trust, eventually these funds will probably be moved to the trust. That is essentially what would happen and as we work on the trust the Commission will get more information."

Commissioner Burgess: "No other questions? So, now we have to move the Resolution?"

John Hiscock: "Yes."

Commissioner Burgess: "Ok, does anyone want to do that?"

Commissioner Borges-Lopez: "I motion to move the Resolution. Do I need to read it?"

John Hiscock: "Yes."

Commissioner Borges-Lopez: "Ok."

John Hiscock: "You can certainly delay it but not past the end of the fiscal year otherwise we are going to have a bigger note on our Audit going forward so we might as well deal with it right now and you are going to be moving to the Budget very shortly and discussing this very topic so there has to be a place to put the money."

Commissioner Ramirez: "There really is no reason to delay it. It is a lot of money but it has to be done anyway."

Commissioner Borges-Lopez: '*RESOLUTION* Whereas the Second Taxing District of the City of Norwalk (District) has identified, in conformance with GASB 45 Accounting Rules, that it has an Other Post Employment Benefits liability to fund current and retired employees of the District's medical benefits. Whereas the District has hired the actuarial firm of Hooker & Holcombe, Inc., to evaluate the District's liability with respect to GASB 45 and prepare GASB 45 evaluations. Whereas, Hooker & Holcombe, Inc., has calculated as of July 1, 2011, an Unfunded Actuarial Accrued Liability (UAAL) of $11,389,859 of the District and calculated the Annual Required Contribution (ARC) in accordance with GASB 45 annually since the fiscal year ending June 30, 2009. Whereas, the District's auditor Hope & Hernandez, P.C. has, in the annual audit of the

District for each fiscal year since fiscal year ending June 30, 2009, recognized a Net OPEB Obligation (liability) based on the District's actual cash payment for retiree health care benefits as subtracted from the ARC in accordance with GASB 45 and this Net OPEB obligation is $1,402,372 as of fiscal year ending June 30, 2012. Whereas, the District is in the process of creating an OPEB Trust to fund the District's OPEB obligation and the District has not completed the creation of the Trust. Now therefore, be it resolved, that the District shall create a dedicated cash reserve entitled "Net OPEB Obligation Reserve" for the sole purpose of accumulating funds to offset the Net OPEB Obligation liability on the District's Financial Report Balance Sheet, which funds shall be segregated from the District's general cash and are to be used solely for the purpose of OPEB obligations.

CERTIFICATION The undersigned Clerk of the Second Taxing District of the City of Norwalk certifies that the above is a true and correct copy of a resolution adopted at a legally convened meeting of the Second Taxing District Board of Commissioners held on Tuesday, February 19, 2013, Lisa Roland, District Clerk.'

Commissioner Burgess: "Second?"

Commissioner Mann: "Second."

Commissioner Burgess: "All in favor?"

Commissioners Unanimously: "Aye."

Commissioner Burgess: "Opposed?"

[None opposed]

Commissioner Burgess: "Abstentions?"

[No abstentions]

Commissioner Burgess: "Ok, next."

John Hiscock: "Alright. Discuss and Approve in Concept the CMEEC Draft Revised Power Sales Contract. Here with me this evening is Kara Murphy who is legal counsel working on this project along with myself and going through endless… you may want to come this way and watch what we are doing here. [Directed to Attorney Murphy] Endless conversations, negotiations, meetings with CMEEC to the point we are all tired of it, but we need to go forward. I am going to give you a brief overview and this presentation was in your Board Book. I wanted you to have it in advance. I figured we would quickly go over it so we can have a discussion and then we will talk about the legal issues, the legal ramifications and Kara, as we go through, if you see a reason to jump in the middle of this please do.

Attorney Murphy: "Ok."

[Powerpoint Presentation]

John Hiscock: "This is essentially, 'Introductions and Thank You,' this was prepared by CMEEC with a few modifications by us to make it suit us a little bit better. We are going to do some definitions, we are going to talk about the Power Supply Agreement evolution, we are going to talk about the CMEEC structure, we are going to talk about the RPSC, which is the Revised Power Sales Contract and why it is different than the current PSA. What is important about the structure and why it is valuable, and especially to us, since SNEW has been very aggressive with respect to trying to make this move and some milestones and time line. Some of this is repetitive but some of it isn't. CMEEC was formed in 1976 as a joint action agency who owns utility companies and municipalities, which own public utilities who purchase energy from private utilities for the most part CL&P. It was done to purchase power other than CL&P because the communities all felt that they were paying too much to CL&P for power. CL&P dominated the power market in Connecticut. The advantage to us all getting together, although it did not happen at once, but the more we could put together the larger the power that we are procuring, the better price we could get and we were all sharing the overhead in dealing with purchased power. Next page lists the relative size; you know I have always complained to you about how little representation we actually have at CMEEC and there it is we are 8.583% of the organization, Groton is 51%, Norwich is 31%, East Norwalk is 6% and Jewett City is 2%. What do we get out of CMEEC? Full requirements, we are required to purchase all of our power from them. We get wholesale energy related legal services, financial services, regulatory and governmental body representation, as it relates to the wholesale power market. We do lobbying jointly on a national level before FERC and before Congress and we do it jointly with all of the other munis in New England, as part of NEPPA (New England Public Power Association). CMEEC plays a key role in that, in fact we go to Washington in about 2½ weeks to do some of that lobbying and they are also doing conservation and load management services. You are probably aware that the State requires us to tack on a small amount to every customer's bill, put it in a kiddy and give out to other customers for conservation and load management services. There are varying opinions as to whether or not this is a good idea but that is what we do. PSA is the old Power Supply Agreement. That is the original agreement, full requirements for everything, electric products including transmission. I think you recall that we have a GTSA (General Transmission Services Agreement). When we got involved in discussions about our displeasure with the PSA and how it locked us in until 2029 and was not a reasonably nor commercially reasonable product. We started moving with CMEEC's approval, not necessarily always as fast as we like and the way we would like, but in order to issue bonds to pay for a purchase of a portion of the New England Power Grid of about $50 million from CL&P and

Northeast Utilities, we had to issue bonds. SNEW implied to CMEEC that is wasn't going to accept issuing bonds for this project under the PSA and we went through this process of creating the GTSA to deal with transmission services and Kara is involved in that project and originally Arthur Miller from their firm, who has since left, was involved in the project and after significant negotiations there is a GTSA. Since then we have been working on an RPSC which is a Replacement Power Supply Contract to replace the Power Sales Agreement, the PSA sort of along the same lines as the GTSA and its for the electric products, energy, capacity, ancillary services, support services, etc., Everything other than transmission. And the other definition you need to know about, Entitlement Allocation is the percentage ownership of a project. In the old PSA everybody had to be in the project. Now we get to pick and chose which project we want to be in under the RPSC, which allows flexibility on our part and allows an exit, if we would like to make an exit. And again, I have said this to you many times, we are not looking to exit but we want an arrangement where we can exit if things going forward are not acceptable to SNEW or not in SNEW's interests. Under the old PSA there was no way out until 2029. This is a fairly busy slide. It compares the old legacy PSA that provided everything to us with full requirements for electric products, which the new RPSC is also a full requirement for electric products. The term of the legacy PSA was 2029, entered into originally in 1985 or so by several of the utilities, not SNEW, not Third, not Jewett City and that there was no way out if there was any indebtedness. You also, I think recall, that we went to the Legislature to get a change in the enabling statute to allow exit under certain terms and conditions and that passed the legislature in 2011 to allow exit as long as we all agree to certain terms and conditions. If there are any questions on this slide I will go over it. The new agreement is for 40 years. We can terminate with 2 years notice. We can buy or sell other shares, entitlement allocations of projects; it is uniformed to everybody involved. Right now it would involve the 5 member agencies. It does not include Wallingford. It might include Wallingford at a future date or Wallingford may purchase power elsewhere because they recently put an RFP out (request for proposal) to other potential suppliers and they are down into the final review stages. We don't know who that is going to be. If they end up purchasing power it could be under this RPSC or under a special contract and that is not really related to this document. The other thing that has changed in this process is the new RPSC; the new power contract involves the power contract and the projects only. The old PSA included all of the agreements between the parties for membership, which sort of confused two issues. This takes the membership issues and segregates that out into a separate Member Agreement and some Member By-Laws that Kara and I are not working on moving forward which also need to be resolved as part of this process. So, we are now ending up with changing documents going forward. We are changing the legacy documents. We will eventually end up with a GTSA for transmission, RPSC for power and power projects, a Membership Agreement that controls membership in and out and deals with things like equity, deals with the relationship between the members and then a set of By-Laws that explains or deals with how the Board makes decisions, voting rules and similar rules and how the members' concept of the members meeting would also change. So we will end up with essentially four documents. So we are working on the second of the four. This is another fairly complex flow chart and diagram. It simply explains the relationship in a diagram and it is essentially significantly less complex than the words and generally easier to follow and if you look at the center portion you have CMEEC and then you look at it pointing downward and it speaks to electric products and dollars go up to CMEEC in trade for electric products. Then you see a little bit further to the right, transmission services coming to the utility and dollars go back to CMEEC for transmission services and then further right we have electric products and transmission services to non-rate 9 entities and the same sort of relationship. They get products and dollars to up to CMEEC; we call that on the right hand side, rate 10, that is not the standard rate we pay for. Anybody who signs an RPSC has a rate 9. Rate 9 is uniform between us all. We all pay the same pricing structure; not necessarily the same price. And the best example I can give to you is that our transmission services are a little more expensive because as you know we have any agreement with CL&P that we are trying to get out from under with the substation where we pay CL&P for their investment in those lines that we call the 31 and 32 that come to us. Those lines are constantly breaking down on us and are causing all of the power outages. So, while we have the same structure, we have an additional rate. The other things that change the rate in rate 9 are what is called a low profile. Those utility who have a good low profile get a better rate when blended because they have a better ratio of peak to average so that their average usage provides funds to cut down the affect of the peak. Maybe that is a good way to try to explain it. But it is all in the same framework. It is just that each MEU has a slightly different calculation based on its load and its transmission. Some of the MEU's own what we call pool transmission facilities and get a return on investment so their transmission costs are lower. So each MEU has a different price. But to give you the spread on what we are paying right now and it is going to change slightly $110.00 a megawatt hour on average and I think the cheapest MEU is about $95.00 for the same product. Almost $10.00 of our rate goes to CL&P. And that is essentially what the whole slide explains. It is essentially the two contracts; the GTSA and the RPSC and where the money goes and how it flows around. Here is a summary of what we have been talking about. It segregates the rates specific and membership specific provisions to the appropriate structures; they have a rate 9 and the Membership Agreement. The other things we have been doing lately, is any services we provide outside we are doing for profit and it comes back to the members only. So we are getting something more from CMEEC than we used to. It's essentially just updating the relationships and creating a more commercially acceptable relationship where you can move into CMEEC; out of it, you can chose the projects you want to become involved in and it provides a flexibility that we never had before. Again, project participation is not required by all members. It reserves projects to members first. It allows non-members under certain terms and conditions to be involved in projects and example of projects would be, if we decided to build a power plant or if we decided to purchase an interest in a power plant or we decided to purchase interest in a very long term power supply contract. Those are projects. The term is 40 years, as I mentioned. It has the early termination provisions, which is what we fought for. Here is an example of the rate 9. It has to do with the 2013 proposed budget at $93.86 million. We have some projects that we are involved in, which will go forward if everybody signs the RSPC and we come up with a Member Agreement and By-Laws. We are talking about restructuring the Millstone debt. That is a legacy project. We used to own a part of Millstone as part of CMEEC. Everybody got very uncomfortable with the cost of closing a nuclear project. They decided they wanted out at the time. They negotiated an out and we had to pay CL&P our share of an estimated pro-forma clean up and closing of the facility. In retrospect, and this is not a blame on anybody's part, it was a mistake. We would be overjoyed if we still owned part of Millstone because it is obvious that nuclear power, despite what everybody says in the media and the political structure, isn't going to disappear soon. We are going to restructure Millstone debt and we are going to gain about $.30 cents per megawatt hour. We are going to refinance Pierce, which means we are going to extend the Pierce debt over a longer timeframe. That is going to save us about $2.90 per megawatt hour. We are going to refinance the 50 in 5 Project and gain about $2.50 and we are going to refinance the Market DG for about $.14 cents. So, if we do all of the refinancing it will drop out to about $5.00 a megawatt hour. That is a pretty good savings. That is a fair amount of money. For us, if we go forward with the substation, that would save us another $10.00. So there are things we are doing. We are moving towards better pricing. If we don't come with an RPSC, none of this will happen. It just simply won't happen and we will be stuck where we are. Each of the systems has a good reason to move forward with all of this. The Millstone restructuring is only at $.30 cents. In our case and in most cases it is going to be a bigger number than that because as you see at the top it says 'Millstone 100% Taxable Debt – 0% Trust Fund.' Remember we have got that municipal trust that we deal with out there with money involved. Next slide and it shows the same issues and if we use 50% of the trust and 50% of the taxable debt for refinancing Millstone so we obviously, as you can see, the Millstone restructuring now saves $3.44 as opposed to $.30 cents. We move further and if we use no taxable debt and use the trust to refinance the Millstone debt, and there is enough money in the trust to do it, we save even more. The Millstone restructuring goes to $7.18. There is some good news involved in all of this. We are going to save some money and this is just another way to show you the exact same information and put it in dollars. And if you look at the very bottom time line, you will see change in current cost per megawatt hour. You will see the $0.30 cents at the bottom and, by the way I am sorry, that is a $.30 cents additional cost, and then the minus $3.44 for the savings and then minus $7.18 and this is just graphical representation. And I did make a mistake; I told you it was a $.30 savings. It is not, it is a $.30 cent cost. Now, here is the same information for SNEW, based on SNEW, and you can see that the Millstone restructuring costs us $0.26 cents, if it is 100% taxable and I am not going to focus on the others because they are the same. If we go to 50% of the trust fund, it is the $3.00 for SNEW and these are the same real numbers. They only change slightly because of the way we billed in rate 9 and if we use 100% of the trust fund it is $6.25 (slide 16) for us. That is a decision we need to make within the next month or so and we will talk about that at the March meeting where we can talk a little bit more about that. However, remember we took $1 million out of the trust to keep our rates reasonable last year. If we use all of our trust money to finance the Millstone refunding, which the RPSC would enable along with everything else we are working on, we could immediately lower our rates by $6.25. That is going to be the probable recommendation I am going to make to the Commission, to actually do that. It would leave us, and there is another table you will see in a minute, with still some money in the trust to be used for other purposes. Graphic explanation again. Go to the next page and we are looking at the yield curve here on the basis of refinancing. This graph shows the current tax exempt bonding interest rates for our level of credit rating, CMEEC as a whole and you can see that we would be borrowing for one year money at a percent and a half, two year money a little higher and it slowly moves up except when the timeframe on the bottom changes. After the seven to ten year it gets pretty high and goes out to about 4%. So, essentially we are going to be borrowing money in that 4% range because we are going to extend the financing out. The reason we are showing you this is to show that short-term money is cheap; long-term money is a little bit more expensive but still in that 4% range over the long haul for tax exempt financing or bonds based on CMEEC credit rating. Just more information that was given to the Board. It shows a AAA general obligation, 25 year maturity. First of all we do Revenue Bonds; we don't do GO Bonds at the CMEEC level. We do GO Bonds here and that is a Triple A rating and CMEEC is rated A1; I am sorry A3, we are rated AA1 here. Only there for context, it really doesn't affect the RPSC at all and "Milestones and Time Line'. This is an old slide. Final contract in January and you know it is February. We have an RPSC we believe is acceptable at this point in time. Not all of the MEUs have approved it. We are going to talk a little bit about that tonight. They are all planning on doing it in the February timeframe as far as I know. We are talking about this thirty day period expiring. I don't know if you recall from previous meetings but I have said to you that once this Commission would approve a RPSC or the GTSA or any other one of those kind of arrangements, after the Commission approves it and has full authority to do so the legislative body, which in our case is the Electors have up to thirty days after the Clerk notices the public in the newspaper that you have entered into this Agreement. They have thirty days to essentially not go forward and not ratify or actually overturn your decision. That means the earliest, based on what everybody else is doing, we could do the CMEEC bonds sometime in mid-April, presuming everybody moves. We also, as you know have a Commission Meeting on the 5th of March. So, that is certainly an issue for the 5th of March. And lastly it says 'Refinance Generation Assets'; this is what we have been talking about. All of these refinancing schemes at the CMEEC level in the March/April timeframe. At this point in time, it appears that the rating agency meeting, which I go to because I am the Chairman of the CMEEC Board, tentatively looks like March 13th. However, they won't issue the final rating until everybody has been through the 30-day period to make sure that no system backs out of the arrangement. And 'Questions and Answers'. I know it is a lot to understand. I know that every time we get into this, it is a fairly complex matter. The principles of what we are doing are very similar yet each one of these arrangements is a separate item. So, at this point we can answer any generic questions on the record and then we probably should move to Executive Session to allow the Commission to ask detailed questions about the contract because at this point it is a contract under negotiation. It is not finalized and we are working with counsel to finalize it, obviously. So what would be appropriate to have those discussions in the Executive Session. So one, let's start with general questions about what we are trying to do. Is it any different than what I told you previously?

Have I caused confusion because I added more to the equation? It is very difficult to digest all of this especially for board members who deal with this, as you do as lay persons and doing it on a monthly and relying on the information I send you. This is not an easy concept and the documents are fairly complex and that is why we have legal counsel."

Commissioner Ramirez: "That is why you folks make the big bucks you understand complex dynamics of this conversation."

[Laughter]

John Hiscock: "And I think counsel is prepared to speak about the actual contract during Executive Session to give you a little bit more flavor regarding the pros and the cons and what the real issues are. I was just giving you the overview from the financial perspective and what we are trying to do with respect to structure. And obviously once contracts are signed, they are a public documents and it is noticed by the Clerk in the newspaper, it is an approved document and it can go on public record."

Commissioner Ramirez: "Just to clarify before any official contract, the signing, the electors have to approve it, is that correct?"

John Hiscock: "No."

Commissioner Ramirez: "No?"

John Hiscock: "They have to not overturn your decision."

Commissioner Ramirez: "Are you serious?"

Attorney Murphy: "There is a quirk in the Statute that says the governing body has to disapprove your decision. Not approve, disapprove."

Commissioner Ramirez: "Disapprove."

Attorney Murphy: "And that is how it went through with the GTSA and it's a quirk in the language of the Statute so the way that we did it with the GTSA is that we came to you, we got approval from you that we noticed, the thirty day period and then we had another meeting, which I believe we opened and closed because no one came to disapprove. We specifically put in the public notice 'to disapprove'."

Commissioner Ramirez: "So this will be a general meeting to disapprove. No hearings or anything like that. Just a yes or no, simple."

Attorney Murphy: "Right. The public can obviously ask questions, but they have to disapprove. That is the way the statute is worded."

John Hiscock: "And to put it in context to you so you understand how the statute got worded that way. Originally it was three towns and they all had a legislative body at their Common Council. So when the Districts got involved nobody changed the statute to reflect our style government. So it was originally made since for the only members of the cooperative. But once the District joined with the town meeting style legislative body of our electors it added confusion. So this is why we go about telling the electors you can come and disapprove if you like and then I know we all talked about this and in the past the Commissioners have basically asked the electors not to disapprove. And I do remember one meeting and we sat here and no matter how hard we said it and someone made a motion to approve and we finally threw our hands up and said ok do whatever you want."

Commissioner Ramirez: "The thing is, is that it is so complex."

Attorney Murphy: "Yes."

John Hiscock: "Yes."

Commissioner Ramirez: "I mean, you folks deal with this on a daily basis but for a normal citizen like myself; it is confusing."

John Hiscock: "I have a strong understanding of this because of my involvement at CMEEC."

Commissioner Ramirez: "That is what I am saying. But for those citizens that have no clue what you are talking about. How can you ask me to rationally ask me to explain the plain simple English the mechanics of the whole process?"

John Hiscock: "It is hard enough for the MEUs utility commissions like yourself to understand this. To have the electors understand this is just…first of all there is no continuity, they don't come to the meetings that you come to, they don't have the board books you have, they don't have the opportunity to listen to counsel in Executive Session. They have none of this and it is just as Kara has said a quirk in the Statute that they have the ability to disapprove. I could not conceive an elector understanding what to do."

Commissioner Ramirez: "If they disapprove they don't or wouldn't even know what they are disapproving."

John Hiscock: "I understand it because one, we do a lot of negotiation and two I am at every board meeting, three I am on the Budget and Finance Committee, I am also on the Risk Management Committee at CMEEC, so I deal with this a lot. Probably more than I would like sometimes. So, if we have no generic questions about the process and the finances, I would suggest that we go to Executive Session, madam Chairman if you prefer."

Commissioner Burgess: "I will move that we go into Executive Session to discuss this contract."

Commissioner Geake: "I will second it."

COMMISSION WENT INTO EXECUTIVE SESSION – 8:07 P.M.

COMMISSION RETURNED TO REGULAR SESSION – 8:45 P.M.

Commissioner Burgess: "We are out of Executive Session and there will be no action taken as a result of the Executive Session."

John Hiscock: "The only issue for the public session is that this will be on the March 5th Agenda for approval."

Commissioner Burgess: "Are you ready to go onto the next item?"

John Hiscock: "Yes, ok, Budget. The Draft Budget has been presented to you. I guess about a week ago this document came out. Since then we have two modifications to it. Neither of which I brought with me. I am sorry. I have to get one. Oh, actually, it is in the Board Book. This Budget is very similar to what you have seen in prior years, with a few changes. If you recall that year after year we would sat in the Budget meeting and I would tell you that we have more cash than the Budget showed and that we were in better financial condition than the Budget showed. I don't know how else to say it. We had significant discussions with Bob Bailey of Hope & Hernandez and you know that Bob has been our auditor for many years. We talked to him about the issue and it was Kevin, Bob and I who had these conversations and he really said stop what you are doing and do what everybody else does and each year reconcile your cash and estimate your Opening Cash Balance based on a reconciliation of your audit position plus what you have done. And Kevin is not here and we can talk to him about it in a minute but Kevin and I worked on it and we have decided that we are going to present you the Budget on that basis. We are straightening out our Opening Cash Balance and we can go over the detail of that in a minute when Kevin gets back because he actually put a little bit more work, more than a little bit more work, than I did. I had discussions with him and said this is the way we are going. Kevin, we are talking about the Opening Balance changes that were made and how we went about it and as I indicated before, Kevin did most of the work on it and did the reconciliations.

So that is one difference in this Budget. So you won't hear me jumping up and down and saying we are in a better position than the Budget indicates because we did the running Budget and over the years issues crept in. We identified some of them as double counting of preliminary service projects and pulling them out twice. I think you all recall the kind of discussions we've had. The first mistake that we made was we forgot to put it in the Budget that the Treasurer's salary had changed based on the last elector's meeting. And while we were both there, we both forgot the issue and thankfully the Chairman called us and said your Budget is wrong and let us know that in fact we had not reflected the Treasurer's salary. So that is a correction as a result of the Chairperson. The second one I guess, is I came to Kevin one morning, about a week ago and said at 3:00 a.m. in the morning I was up mulling over issues and I realized that we had forgot the OPEB Liability for the current year and that we were basing that OPEB Liability on the Audit that we had completed and if we had continued with the Budget the way it was shown, we would have missed the current fiscal year and we would have worked off of the $1.4 million as opposed to the $1.8 million. So, while I was the one who woke up in the middle of the night thinking about the issue, Kevin was the one who had to recalculate the numbers. And I won't tell you what Kevin said to me when I walked in the morning and told him."

Kevin Barber: "I said good catch John."

[Laughter]

John Hiscock: "Yeah, with a few other comments. And we reduced the third item in the Budget change from what you were initially given was a change to the Purchase Meters and Modules from $250,000 to $200,000 to fund the two OPEB change that was required because we missed the year, the current year. So, we reduced the funding of that project. Kevin, this really is Kevin's project, and Kevin and I talked about it and decided spending $250,000 in the next fiscal year on this project was probably a stretch and he wasn't going to be able to do it anyway. This is to convert the water system meters to the AMI Systems that we read similar to the electric meters. And we are doing it on a as you go basis with our existing staff. That may change because we are not making a lot of progress because of other commitments, but we are on all of the large accounts currently working on replacing them all into the new system because the large accounts are where all the money is. And the problematic accounts where we have problems with either customers or other things we are slapping, as we call it, modules on their accounts so we can read them by radio. So those are the three changes we made from this Budget. And if we make other changes as a result of tonight's discussion or anything that happens within the next several weeks, they will be indicated on this and then the Budget that will be presented to you on the 5th will include everything here. The way Kevin is handling it is the Budget document that he has on his computer, these changes have already been made presuming (1) the Commission is not going to object to these changes for they are corrections and (2) it will be easier to deal with when we actually come in with the document on the 5th. So we are running this change list. We are not anticipating other changes but you never know.

Something could crop up or we could have a discussion tonight and the Commission could say we would like the following changes and we go from there. So, the Budget other than that is pretty much the same as in prior years. Let's go to the District section first, since that seems to be the one that seems to get the most scrutiny recently from the public, certainly not from the Commission, the Commission deals with the entire Budget in detail. Probably the best place to go would be to page 3. A couple of noticeable changes, Revenue on Interest are about the same. The interest rates are no better or worse than they were in the last prior years or two. As you know they are abysmal but that is what they are. The salaries are the salaries. The Treasurer's salary changed, the document in the book is wrong and is corrected on the attached sheet. We upped Meetings and Printing based on our estimation of the number of meetings and the minutes and all of the other transcription that needs to be done. We put the Legal in at the same amount and we have done that for most years. And I think you all remember that generally we are significantly under the Budget on the General Fund. But we certainly need to put it in. We don't want to have to, for small amounts of money, bring the Electors back for changes. The General Expenses section is pretty much the same with the exception of upping the Meetings and Printing, which we think is a more realistic number."

Commissioner Geake: "Through the Chair. I know I had asked beforehand but never got it into the minutes. What does one of the meetings that we had had that we had to cancel because of non-participation. How much did it cost us per meeting? I remember I had asked but it never got in the minutes."

John Hiscock: "I think Lisa had done some quick calculations and it varies depending on a couple of issues, but I think Lisa can answer that."

Lisa Roland: "Around $600."

Commissioner Geake: "So every time that we had not enough people it was costing at least $600?"

Lisa Roland: "At least yes, up to $800."

Commissioner Geake: "So that makes a difference with what we have to Budget for the next year because of this difference and changes in the meetings."

John Hiscock: "Yes, it amounts to staff time and it amounts to the legal notices in the newspaper, which is expensive. The expense for a legal notice is significantly higher than a classified ad because the newspaper business has learned that it is a good source of revenue and the law requires us all to use it. As we move down to the Community Service Projects, there is not much of a change. As you know, we dropped Heritage Wall out and Peters Art Park last year. The other projects are the Madison Avenue, West Avenue and Miscellaneous

Beautification Projects. Holiday Lights is the Heritage Wall, which is zero now. The District Office is the tree at Water Street and unless we do some electric modifications to the tree at Water Street, that is going to disappear from the Budget because Hurricane Sandy destroyed the electrical system in the basement of our building at Water Street. And about the only thing that it actually fed was the Christmas Tree and some of the outside lighting. And it also destroyed some of our old phone wiring, so we moved to voice over IP phones at Water Street because the computer wiring is up through the ceilings because it was added long after the building was built. We stopped adding wiring in the basement because it is a confined space entry. So, while we put it in the Budget, if we get in and redo it, we need to cover the cost of lighting the tree at Water Street, which we didn't do this year because of the Hurricane. We didn't have the time to go in and worry about re-wiring the basement, we were doing other things. The other projects; SoNo Arts Celebration is $1,500. That has historically been our project to provide the electric services and some energy. The arrangement with SoNo Arts is they will pay the difference if they exceed $1,500. Some years it is over, some years it is under. When we bill them, they pay promptly. It has never been an issue and I think in recent years it has been under that."

Kevin Barber: "Yes, the last two or three years they have been under."

John Hiscock: "And with the changes going on at Washington Street, the number of services that have to get installed are less because some of the spaces that they used to use are no longer available. Summer Youth Employment Program, we put in at the $15,500, which was the request and we have a request this year in a very timely fashion, ahead of the Budget session, which is the first time in a long time. I guess there were some reminders that went out and it didn't come from my office but the City was reminded that they should make the request up front and they did. So, we put the $15,500 in. And Miscellaneous Community Projects we left at last year's $2,500 amount. The actual Budget is $300 more than last year. If you look at Street Lighting, Purchased Electricity the lighting dropped a little. It actually represents the fact that our wholesale energy prices dropped and we have Street Lighting Operations and Street Lighting Maintenance for a total cost of Street Lighting down about $13,000 from the prior year. Purchased Electricity is clear; it is energy. Street Lighting Operation is sort of managing the data and the information related to the street lighting and maintenance operation is a smaller number than the Maintenance. Maintenance is the poles that get whacked and ones that we don't collect from the insurance company and there are some fair numbers there. And general changing of wattage in cases where we changed the wattage by just changing the header on the light and it is not very expensive. That's what lighting is. And other than that the Street Lighting Capital Project, where again, we put $20,000 in case we do significant additional new lighting. When a street light get completely destroyed and becomes a capital item such as when an ornamental light gets destroyed its $3,000 to $5,000 every time, so it is a big number. And for the most part, we don't get paid."

Commissioner Ramirez: "May I, through the Chair? The project that we are working on for LaJoie's. Would that make any difference to the Budget in the future? Presumably some of those poles we have some lights on?"

John Hiscock: "The only new poles that we set are in the right of way, very close to the LaJoie property, all of the other poles are existing poles. So, we set very few new ones. I think the number of the new ones were two. Now, that doesn't mean that we didn't put in replacement poles for existing poles that were old. But that is a different portion of the Budget. We put that in the normal Electric Budget because those poles were older, so we consider those electric."

Commissioner Ramirez: "How is the project going?"

John Hiscock: "The project from our perspective is done. We have not energized yet because LaJoie is not ready. He will be ready April 1st he believes. He ran into some significant delays with respect to some legal issues he had to complete with respect zoning and mapping and other requirements. If you go down then through all of the changes, the Opening Balance is a little over $1 million and it stays at over a million when it is all done. We transfer from the Electric Fund and the Water Fund $100,000 and we transfer $193,000 from the Electric Fund to cover the street lighting. So basically the District's Budget is essentially the same as the prior year and essentially is neutral with all of the money coming from the two utilities and the Reserve Fund remaining just about identical to prior years. It has been hanging in there right around $1 million. It creeps up slowly due to interest and it creeps up slowly because we over budgeted slightly for the District. Any question on the District? Any issues, any changes anybody think that should happen? Ok. We will move on to the utilities. Let's start off on page 5 with the Water Operating Budget. Operating Revenue is down slightly from last year. Actually from the year we are currently in. From last year's budgeting process, which is the year we are currently in, is down only slightly. Over the long haul our sales have declined very slowly, steadily and I am measuring it not in dollars because we have had rate increases over the timeframe but in actual gallons sold. It relates to conservation, it relates to the economy and relates to a lot of commercial and residential space in South Norwalk that is essentially either unoccupied or has been demolished pending other projects moving forward. Right now, as far as I can tell, the only really active project moving forward in South Norwalk is 20 North Main, North Water, I am sorry. It is going to be either Norwalk Tank or Norwalk Compressor depending on what are you are talking about, the naming of it. There are a few moving along from our perspective. The Ginger Man site; seems to be moving based on the engineering. The housing on L&L Evergreen seems to be moving. The project with respect to Washington Village seems to be moving. That one is in the public sector and probably will move slower than the private sector projects. We all know it takes the government a long time to do anything unfortunately because of the approval process we all go through. And hopefully it will all turn around. 95 / 7 is just dormant. If things move forward, sales may go up somewhat but today's plumbing standards are pretty conservation oriented so I often said if you take down an old four unit multifamily vintage early 1900 building and replace it with a modern twelve unit residential, it uses less water than the old building because of the plumbing changes. So as you see things improve in South Norwalk and unless it is a large increase in residential use, you don't see a large change in water consumption. So, long story short, revenues are about the same, expenses are about the same. We have projected that the Operating Expenses will decline slightly from last year's budgeted, $5.8 million to this year budgeted $5.68 million. Property taxes are pretty consistent. The Net Operating Income is pretty much consistent with last year. Remember the Net Operating Income is not what we show for our profit and loss because we deduct out the depreciation and our depreciation is huge and this Net Cash Operating Income essentially goes towards debt and capital projects. The good news is the New Canaan project is done and it has been done for two years. We will take this off as the zeros get completely on the page, it will disappear next year. The principal and interest on the debt of the filtration plant is obviously still there. We have Capital Appropriations that you will see in another section up slightly from the prior year and then similar capital appropriations we have Preliminary Survey. If you go down through the standard issues this year, we are showing an Opening Balance in the Water Reserve Fund of $193,000. This is a part of the new calculation. We cancelled some previous years' projects that we simply are not doing so that added $118,000 back. Now, this is the number that has changed and it has changed in the information that we sent you in the Board Book. We originally put a transfer to the OPEB Reserve Fund of $258,000 and it will be this year from the Water Fund. It will actually be $293,000. We also cancelled a portion of the metering project so that the closing balance on the Water Fund is originally $12,479 and it is now, in your Board Book, $27,479. That is the Water Operating Budget and the change in the financial position and you can see where the OPEB transfers from here on out are going use a significant amount of capital and they are calculated very carefully by H&H on a utility basis because the employees are identified on a utility basis. Electric and water employees are based on where they started in the organization. There is a little bit of an inequity because they some of them from electric moved to water some water has moved to electric. It is the only way we can go through this and actually make sense out of it. And when you look at the calculations, they are not so intuitive, if you look at the other sheet that we gave you because the early expenses are different in one but the liability is higher in the other. So it is sort of a different situation. Capital for water is on page 7 and those are the various projects. Again, in the Budget Book, we showed $250,000 for purchasing water meters and modules; it is actually $200,000 other than that everything, I believe, is the same. And then on page 8 we have all of the prior year projects and the disposition of those. And the color code is on the next page. Red is cancelled projects, projects completed, you don't actually see it, it is an internal key for ourselves. Project designated as annual you will see in orange. Those come back in the next fiscal year. So those are open projects that we are working on from prior years."

Commissioner Geake: "Through the chair. Just a quick question, why was Cedar Street Water System Support, why was that cancelled? Is it because of what they are doing up on Cedar Street that you decided to cancel it and reissue it at a later date? I just wasn't sure."

John Hiscock: "A good portion of it is being funded by the State. We have no idea, by the way, where that project is going. I have not been able to get answers. You do remember that the Cedar Street/Golden Hill Association came in and asked for financial support a couple of years ago? I have not been able to get answers from the city. It seems to go back and forth. My understanding is now the city is funding the lighting. When the bids come in for the project and the bids are higher than they have budgeted, who knows what is going to happen. This is the strangest thing I have dealt with in a long time. I can't say any more than that. Simply, we had a request, it has been dormant and I don't know where it is."

Commissioner Geake: "I was just curious."

John Hiscock: "So, the cancelling of that project really reflects where we are at this point. Any question on the Water Budget, on the Capital Budget? None, ok we can go to the electric. Again, the Electric Budget is similar to prior years. The Operating Revenue is down by about $400,000 based on our rates and our sales. So, you will see that the Total Revenue goes from the current year of $16.4 million down to $15.9 million. Then you move down the page and look at Expenses and you see that expenses have dropped significantly from $16,433,000 million down to $14,969,000 million. However, if you look up at Purchased Electricity, you will see the Purchased Electricity price dropped from $10.8 million to $9.6 million. Other areas have remained the same or declined slightly for the most part. And that is essentially the Operating Budget. You flip the page and you go through the Conservation and Load Management Expense and that comes in as Revenue and goes right out. That is the fund we are required to have with the State. We changed from last year's negative Operating Income to a positive. We have Capital Appropriations of $442,000. We will go over those on the next page. We have an Opening Balance in the Electric Financial Reserve Fund of $7.4 million. As you see the prior year was $5.2 million, the year before that was also $5.2 million. That does reflect some of the changes that we made in the Opening Balance process. Return to Reserve Fund From The Audit, that is no longer viable because that is not the way we deal with it. Previous Years Cancelled Projects we cancelled a lot of projects in the Electric Fund because of changes that we are doing and we will get to those in a minute. And then we have the Transfer to OPEB Reserve Fund of $442,000, which is now…"

Kevin Barber: "$507,000."

John Hiscock: "5 What?"

Kevin Barber: "It is now $507,000."

John Hiscock: "$507,000. And if I can call your attention to and let's see if we can find it, no, it is not in this document unfortunately. Let's go to the page 15 that was handed out to you and it shows something that isn't necessarily what you would think. If you look at the OPEB expense modified we show $293,000 this year in water and $507,000 in electric. Now, that is a huge difference and you are asking me, I am assuming you are going to ask me why? Why is so much in electric? It has to do with the retirees and the number and the age of those retirees. If you go to, and you don't have this in front of you, but if you go to the Unfunded Actuarial Accrued Liability of the two utilities, if you break it down by utilities as this is the only fair way to deal with this, the electric Unfunded Actuarial Accrued Liability is $5.6 million, remember this is the $11 million I was talking about now and for water it is $5.8 million, almost identical. The nature of the retiree pools is quite a bit different. In the electric group and water group, we have retirees of 18 a piece. In the active participants we have electric with 15 and water is 8. There are more active electric retirees than there are water however, the total group eligible is identical. It just so happens that a significant…"

Kevin Barber: "The eligible number of employees is larger in the electric that will receive OPEB when they retire."

John Hiscock: "In the end."

Kevin Barber: "Right."

John Hiscock: "Right. And if you look at the electric has active participants of 15 and the water has 8. The totals become electric at 33 and water at 26. So there are actually 59 bodies."

Kevin Barber: "The reason for that is electric changed their benefits 9 or 10 years after water. So, there are more employees eligible for the OPEB benefits on the electric side than there are on the water side. So that is why the cost is a bit more expensive for the electric than it is for water."

John Hiscock: "The average active age of the two groups is 51 and the actual age of the retirees is 74 for electric and 70 for water. So, we have a lot of retirees and they all apparently have a very long life, which is good."

[Laughter]

John Hiscock: "Except when you have to pay for that. So, it looks a little bit skewed here but in the end, because of the liability, it all balances out and that $5.8 or $9 million a piece will have to be paid going forward; big numbers. I wanted to point that out to you, because some people might interpret that without looking at this report and fully understanding it, that some people might interpret that this as being skewed against the electric rate payers and it is not. We have all the actuarial numbers and anytime anybody wants to see these documents; that is fine. As we move down, we have the two transfers $100,000 for District and $193,000 for Street Lighting showing a closing electric balance of $8.2 million. Very different from the prior two years, which were $4 million and slightly over $4 million. And this is reflected in this straightening out of the Opening Balance and my not having to come to you and saying to you; we have way more money in the Audit than is showing in the Budget. We have made that correction. And hopefully if we have done a good job and I presume that we have, when the budget comes back next year we are going to tell you exactly how much we missed by. Alright? We don't believe we will miss by very much at all and we go from there. If you flip the page and you will see the Capital Projects for electric of $442,000 going forward. And again in adding up to the $442,000 one of the biggest amounts is Miscellaneous Capital Purchases that we use to take care of failures, large failures, unanticipated and very rarely do we ever use anywhere near the amount allocated, but again it is allocated so that as an example if we had an unfortunate incident with one of our line trucks which are very expensive they are somewhere between $175,000 to $200,000 a piece. If we had a catastrophic situation where one of them was parked and a large truck whacked one and destroyed it, we would have to go out and spend that type of money. We don't want to have to go back to the electors for those kinds of things and that is an extreme example. But it would apply to any other vehicle. It would apply to a major unusual transformer failure and that is a possibility and we have purchased transformers in here of $80,000. Some of our submersible transformers are far more expensive than $80,000 especially when you calculate the cost of construction related to them, transformer failures because some of the larger submersibles in South Norwalk can cost $200,000. So, that is why it is there. We have been lucky recently, I shouldn't say it this way, but we haven't had many switch failures and we haven't had many transformer outages and in the early 2000 we had a lot switch failures, a lot of cable failures and a lot of transformer failures and those failures caused significant outages that we were responsible for. We replaced a lot of switches, we replaced the cable, we replaced the transformers and we do a better job now at investigating all of the transformer and switch man holes in South Norwalk looking for trouble. We are doing better preventive maintenance. Almost all of our outages now other than storm related or wind related are CL&P related. And that is a good thing. The problem with the CL&P related ones there are extensive and they last a very long time because we are not in control and they take the whole district out in one shot. If we have a single line failure you don't even know about it. If we have a single line failure that causes a relay to trip out on the second line, than you know about it because we go flat and then the ugly situation that is really bad is when both lines fail, then it is extremely bad. To give you an example, the last outage we had was 5 ½ hours and that was simply the amount of time it took CL&P to get out and troubleshoot and they turned back in the line that wasn't defective. We ran on a single line and then it took them another day and a half to fix that. So, anytime one line fails and trips out, the other line due to circuit protection, we are out in the four to six hour range and that is really objectionable as far as I am concerned. That should never happen. The Electric Capital Summary Project Report, you can see a lot of red. We cancelled a lot of projects. A lot of these projects have been cancelled because we are still working on the substation and we don't know exactly what our electric distribution system is going to look like in the short term. So, some of the projects that we had previously scheduled have been cancelled. Cancelled until we have a final design on the substation and a final design on the changes necessary at the existing substation, which may become nothing more than a switch yard. So, we have wiped out a lot of things. The first one at the top. Install Conductors from MH51 to MH52. That went because we don't know what the circuitry is going to look like. Substation Capacitor Bank, that went completely because we are doing a different kind of capacitance to improve our power factor, which is electric that you don't really want to know about. It is really technical in detail, but will save us money if it is done right. The access entry system has just been moved elsewhere. Re-conductor Concord Street has to do with the distribution system changes, so does the overhead transformer on Elizabeth Street. The 5kV Metering Upgrade has been cancelled because we may not be metering that way; we are not sure what we are doing. The big one is to convert overhead to 13.8kV to get load off of transformer 1. That is a $170,000, cancelled because again, the same old issue, the substation. Transformer T1-T4 relays cancelled due to a similar reason. Protective Relaying on Substation Service A and B, we don't know what the substation A and B service is going to look like because of the changes. So, we whacked a tremendous number of these projects. They may turn around and come back to us in the form of substation expense, so I am not saying it is all good news but I am saying it is getting moved, shifted and changed around. So, when you get to approve the final substation dollars it may include some of these projects coming back in a different way because they all relate to what happens right here on State Street. State Street has four transformers for sure two of them are going away and some of the relaying on the high side of the 13.8kV will disappear. Possibly all four will disappear, more likely two will be replaced by two different ones either new or the existing ones will be modified or refurbished because we are only going to use them for four, five, six or seven years out as everything gets converted. So, I am saying to you we cancelled a lot of projects. One, it wasn't because we were dumb before and included projects that made no sense; they have been cancelled because we are moving forward on the substation and that project is moving appropriately. We should have a Siting Council final decision within the next thirty days, we have resolved some of our environmental issues with CL&P and they have agreed to the site remediation plan we are going to submit to DEP. That project is moving. So, those are a brief overview of the two utilities in the District and again, it is not much different but the most part the revenues are similar, the expenses are similar, the capital projects are slightly different and we are now accounting for the OPEB contribution to take down the Net OPEB Liability, which has been building since and I said 2006 previously in my discussion, it was actually 2009. So, it is 09, 10, 11, 12 and 13, five years."

Commissioner Burgess: "Any questions? We don't take any action on this tonight right?"

John Hiscock: "No action. It is an introduction to you for your approval based on the schedule on March 5th. I got to go through this but Kevin was here because he knows all of the details. He is the one who prepares the Budget with information from Tom Villa and Scott Whittier. And I am the one who gets to make some of the decisions about what gets presented to the

Commission. It basically, Kevin is here for all of the detail, this is all done under his direction and on his computer system from the budget model that was developed by Kevin over the last 10-12 years or more."

Commissioner Ramirez: "I believe this is also the last item on the Agenda, right?"

Commissioner Burgess: "Pardon me?"

Commissioner Ramirez: "This is the last thing on the Agenda right?"

Commissioner Burgess: "Correct."

Commissioner Ramirez: "I just have one simple question. I am going to be brief and I don't know if this is the right time or not but what is pertaining to a letter I received about a situation that has transpired?"

John Hiscock: "Ok, hold on one second. I just want to make sure she is done with the Budget."

Commissioner Burgess: "Pardon me?"

John Hiscock: "Have you completed the Budget discussion?"

Commissioner Burgess: "Yes."

John Hiscock: "Ok, I just wanted to make sure before we moved on to that topic."

Commissioner Ramirez: "Yes that was why I asked if that was the last thing on the Agenda."

Commissioner Geake: "Does that have to be an Executive Session to talk about this?"

John Hiscock: "Yes. Ok here is what you need to do and it will be very quick but I need to explain to you what has been going on. The issue is the lawsuit that was filed in Small Claims Court. I will give you a brief explanation as to where we are outside the legal aspects. We have been having an ongoing dispute with a New Canaan resident who borders our New Canaan land that we own and acquired with the New Canaan reservoir. His complaint is that some of our trees during storm events have fallen onto his property and blocked his driveway. In a previous storm, one of the trees fell on his buildings, either a garage or outbuilding. I believe it was the garage. We were involved in a little bit of clean up on that. He has complained about the condition of our property being forest. It has a lot of dead trees and we don't prune it or manicure it and apparently he is unhappy about that. In the most recent storm, several trees came down of which he complained bitterly to us that he explained to us were trees that were dangerous trees. That is it in a general way. That is as far as I am going. I am not going to talk about whether his claim has merit or not. We have taken the position that the State law is clear. In a storm or at any time a tree comes down, each side cleans it up on their own property line and that is it and no one is liable or the owner of the base of the tree is not liable for the damage that the top of the tree might do to an adjacent parcel unless there is a very specific warning of a dangerous tree transmitted formally to the party who's tree base or the base of the tree on the land is located. I don't know how else to explain that. In this case, we took the position that it was his responsibility to clean up the driveway. And this comes up a significant amount of time. It is not terribly unusual this happens. This happens to the State, it happens to utilities, it happens to everybody. This individual is unhappy about the position we took. We referred it to the insurance company. The insurance company is going to ignore the claim based on the law. This individual has filed a complaint in Small Claims Court. The maximum you can recover in Small Claims Court in Connecticut is $5,000. This individual named the Commissioners individually. I can only say to you that it's highly unusual that an individual would name that many parties in a Small Claims case when the maximum that you can receive is $5,000. My opinion is that this individual wanted to impress the Commission with his actions. The long and the short of it is we have sent this to the insurance company, the insurance company will defend. The insurance company will do whatever it will do with any claim. They evaluate it and make a determination. So, that is where it is at. And I was recently told that apparently… was it you who told me Channel 8?" [Directed to Kevin Barber]

Kevin Barber: "No."

John Hiscock: "Ok, maybe it was Scott. Channel 8 recently went through a big story about exactly the same thing on regional water authority's property, exactly the same thing occurred. Trees came down, fell on the neighboring property. They refused to clean it up and News 8 made a big to do about it and the story vanished. They never did anymore. The reason we are taking the position we are taking so you understand and we have taken it before, is that we own 1200 acres in Wilton and 300 acres or slightly less than 300 acres in New Canaan. For us to cut down in a forest situation every tree that falls on a neighbor's property would be phenomenally expensive and for us to groom our property in a way that made every neighbor happy would also be phenomenally expensive. We provide, in our opinion, a tremendous service. We provide open space and we get taxed on that open space. So we take the position that the law is the law is the law and if the Legislature wants to change the law they will change it globally and we will all pay attention to the law. So, that is the deal. If you want a discussion on the merit of the case, feel free to contact me privately."

Commissioner Ramirez: "I appreciate it. I just want to understand it. My name was on it and I wanted to know exactly what was going on."

Commissioner Burgess: "Ok, then move to adjourn?"

Commissioner Ramirez: "I will move to adjourn."

Commissioner Geake: "I will second it."

Adjournment:

The meeting adjourned at 9:45 p.m.

Attest:

Lisa Roland
District Clerk