

Commissioner Mann: "So moved."

Commissioner Geake: "I second it."

Commissioner Ayme: "All those in favor?"

Commissioner simultaneously: "Aye."

Commissioner Ayme: "Opposed?"

[No opposed]

Commissioner Ayme: "Abstentions?"

CONSENT AGENDA:

Commissioner Ayme: "Alright, the next topic..."

Commissioner Geake: "Could I make my statement?"

Commissioner Ayme: "Oh I'm sorry. Go ahead"

Commissioner Geake: "That's all right. I want to formally thank SNEW for how they helped us on Wednesday, July 21st. On Wednesday, July 21st at 9:58pm we got hit with a bolt of lightning during the heavy rain storm. As our house lost power and the neighborhood looked like it was dark I used my cell phone to call SNEW to report the outage. A crew came out and determined it was our house that had the damage. The top of a tree had been screwed off and dropped down onto our electric line and ripped the meter from the house. It was lying in the yard along with several branches and the tree top. The crew stayed for several hours making sure everything was secure before they left. The next day we had to find an electrician, cable company, and [inaudible] company, but before we knew it, SNEW was back there with instructions on what to do when the neighbor, when the electrician came out. Without the combined effort of the SNEW workers we might have had something much worse. So we wanted to thank each and every one of them."

Commissioner Ayme: "I would like to continue the Agenda. Item number four is Municipal Trust."

REGULAR AGENDA:

Mr. Hiscock: "Okay, you are probably all wondering why all of a sudden I'm bringing all of these issued to the commission for informational purposes. And I think if you read the quick narrative on Item four, Municipal Trust, you can see that the budget and finance committee of CMEEC is considering the use of the Municipal Trust as opposed to debt for the purpose of funding CMEEC's equity contribution to the TRANSCO. And I thought it would be a good idea this evening to just simply go over the trust of how much money is in it, what the purpose of it is, what the rules are, because if the board makes a decision, I mean the board, the CMEEC board make a decision to use the Municipal Trust, each of the system would need to agree individually, each of the various

boards. So, if we determine that was appropriate we would come back to each of the systems, and I would come back here and say that for the following reasons we would like to use the Municipal Trust and here are the reasons for it, and hear what the issues are. So that you didn't have to face that issue without any warning or without any opportunity to really understand Municipal Trust, we talked over this issue with the Chairman and asked her to place it on the agenda. The next item on the agenda is the TRANSCO and I thought it would be good to pair those up this evening. And stop me at any point in which you need clarification or anything else. The resolution that's in the book, 0307 is a resolution of the Board of Directors of CMEEC which was part of the establishment of the actual Municipal Trust. Okay, prior to the establishment of the trust it was essentially called the Rate Stabilization Fund and the Affiliated Benefit Fund. The reason it was created was several, but one of the primary reasons it was created was when CMEEC got out of the ownership of the nuclear plant in Connecticut to extract themselves from the plant because there were a lot of at that point, huge anticipated cleanup costs. So, in essence CMEEC bought their way out. It also had to do with the deregulation that was coming. So CMEEC bought their way out of the liability, shifted the liability to others and then to pay this rather large sum of money they issued debt and all the systems approved it and we issued what we call 'Historic Debt or Historic Bond'. At the same time, deregulation was going on and there were items called 'Stranded Cost'. Those were the things the utilities had invested in but were no longer necessary. And the rate payers were going forward to invest into their own companies in Connecticut, where going to have to pay these things that we call stranded cost and the way they did it was something called the 'Competitive Transition Assessment'. It's been going on year, after year, after year and it appears on your bill if you are a CL&P or a UI customer. We were concerned, and I wasn't on board at the time, we were concerned about how to remain competitive. So, we felt that we should do our best to pay or have funds to cover this debt. So, in essence what happened was they decided to collect more from rates than was necessary to cover the cost of power and to put it into the Rate Stabilization Affiliated Benefit Fund. And the goal was to build this fund to cover this debt. At the same time, through rates, we were paying off the bond issues, two things were happening. We were accumulating cash and at the same time, also through rates the bond issues were being paid down. In about the 2005-2006 time frame, which was after this resolution, we got essentially inverted upside down. The amount of money that we had saved was greater than the outstanding debt on the bond issue, because the debt on the bond issue dropped and the income was going up. We stopped putting money into this fund in that time frame. So it's been stable now with the exception of interest. And we all know that interest is low. So that's how it got there. In about 2003 we decided, knowing this is all going to happen, to segregate the Rate Stabilization Affiliated Benefit Fund into two segments. One, the Competitive Municipal Trust and then we left each system certain amount of money in their Rate Stabilization Fund or of magnitude, we put five million in the Municipal Trust, we left a million the Rate Stabilization Fund. Just magnitude numbers, okay, and it's been sitting that way with this money in the trust. Now, the trust rules are in essentially this resolution. The most important thing is on the second page, the now therefore and it basically spells out what each of the systems can use this money for. You can use it for debt defeasance, retired debt. It doesn't specifically say what debt but originally it was to retire the debt from the initial bond issue; or two – is Rate Stabilization Support so that you could take money out of the trust if you had problems in your Rate Stabilization Fund. Item three – is Capital Improvements. If you had a major capital improvement you could take money for that reason, pay obligations of CMEEC under the power supply revenue bond resolution, to pay extra ordinary non reoccurring operating expenses or to acquire additional power supply projects, generally, anything to do with the primary business of CMEEC and the things that we pay for. There are a couple of rules, if you're doing Rate Stabilization Support, you can only take 10% annually out, so it would take you ten years to drain it

down. The other thing that is required is, you need permission from the board to utilize the fund, but that permission can't be unreasonably withheld. In other words, the board got to have a very good reason for saying no you can't use it. So, that's how the trust got started. This is where the trust is today. If you look at the last page before tab 5, and we are going back, I just wanted to give you the information if you, why don't we make it two back? Three back? Never mind, four back. Okay, the pages that look like this. As of June 30th 2010, this is the amount of money in the Municipal Trust, the member trust. The current total balance is 42 million. That's all of it, five systems members only. Groton has 21 million, Norwich has 10 million, Jewett City has 1.3 million, East Norwalk has 3.4 million, we (SNEW) have 5.6 million. Now, this is the same pot of money that when we had the mark to market issue with respect to gas edges last year, we started down a path of temporarily allowing these funds to be used. It never happened. Remember we discussed that. We started down, it never happened. So these monies sit here. What has happened is two lines of credit, one from Wachovia, CMEEC line of credit, one from Wachovia and the other from the bank of Montreal. Both have covenants in them that if the Municipal Trust in aggregate drops below 20 million dollars they withdraw their line of credit. Neither of the line of credits is being used for anything right now. But they exist. Okay? So, that's really where we are with respect to our position of the trust and the total trust. If you flip the page, flip to the upside down page, which you can turn around. If you look at the bottom, you'll see yield and you'll see each of the systems has a slightly different yield, and that's not a problem, that's not an issue. But the yield is on average 2.33 percent. We are making very little money on this. But its reflective with current interest values. That's not terribly unusual and if you saw the numbers four years ago or three years ago we were in the 5 percent range. So this trust is making money in about the standard short term CD rate somewhere where it is, in fact it is a little bit higher right now but it is declining. I'm going to stop here and find out if there are any questions about what the trust is, what its purpose is, or anything related to it."

Commissioner Ayme: "Any questions? I have one."

Mr. Hiscock: "Yes."

Commissioner Ayme: "The funds that are being deposited into this account, if this amount that we have the balances here that we have for each municipality, do they represent the electrical proportion as opposed to..."

Mr. Hiscock: "It's relatively close to proportional size, relatively. A good example is, well, relatively close. Let's put it that way."

Commissioner Ayme: "Okay."

Commissioner Mann: "I thought we were not longer depositing funds into the account."

Mr. Hiscock: "No, we are not depositing funds, I was going to get to that point."

Commissioner Mann: "I'm sorry."

Mr. Hiscock: "We are no longer depositing into it but the funds that are in here now generally reflect a relative size with respect to each other."

Commissioner Ayme: "Okay, I have two more questions. This amount, the 42 million dollars is the, this amount is a deposit on the same margin account that we had before? Or that CMEEC had before? They were mark to market."

Mr. Hiscock: "No."

Commissioner Ayme: "No."

Mr. Hiscock: "They are in totally different vehicle. They're being managed for us in a fund totally separate and segregated outside of CMEEC's normal funds. There is a fund manager and unfortunately, I don't remember the name of it of the top of my head. Its very large, very popular, you know, very typical run of the mill fund. Some of the issues that you can see if you go back and read the Municipal Trust document that relate to that is, we are all government forms that are required to pay attention to the Connecticut Municipal banking regulations, which means we're only allowed to invest in securities of the Feds, securities of the State, securities of Municipalities and a few other life things. We are not allowed to put in anything risky."

Commissioner Ayme: "Okay, so my last question is, this amount that we have here not only the total but the individual amount, would you say they are pretty much secured?"

Mr. Hiscock: "Yes."

Commissioner Ayme: "Okay."

Mr. Hiscock: "All are as secure as it states and I won't comment on that."

Commissioner Ayme: "Okay."

Mr. Hiscock: "Certainly, if these funds are at risk we all have a bigger problem then that."

Commissioner Ayme: "Okay."

Mr. Hiscock: "So, these funds are here, okay. They've been collected for a while. They exist. We, one of the reasons for hanging on to this, CMEEC was in this big drive at one point to improve their credit rating and we, and I attended all the rating meetings down in the city. We were hoping that this pot of money was going to help us. Well, it didn't really help us. We didn't get upgraded. We were trying to get from where we're at with CMEEC. We're A3 & AA3 and we're hoping to get to be AA1 which is what actually SNEW is along with, I believe, Wallingford. It didn't work. They didn't upgrade us. We've come to the conclusion that having a huge pile of cash that was not considered liquid for CMEEC was not going to be hopeful because the systems own this money and the rating agencies recognize that. Okay. So, this has been identified as maybe a way to fund portions of the TRANSCO. And when we get into the TRANSCO discussion, we'll talk about that. But I will indicate that we had a Budget Finance Committee meeting today up in Norwich and we settled on two ways to finance the TRANSCO. We'll talk about that in a minute. One is to issue debt in the name of CMEEC and then take that debt and turn in over to the TRANSCO as equity. This is the tax law that we all think hard about but, we've got an awful lot of opinions. Its appropriate. The other way to deal with it is to take the money out of the trust and fund the TRANSCO equity side that way. The equity at the TRANSCO is going to return 12 1/2 %. It's a

very, very large number. Its extremely a large number. These funds are getting 2% now. In good times they were getting 5%. So its certainly a way to leverage these funds and get greater income out of them. On the other hand, if you can borrow the money reasonably and not put any of your funds up, and utilize debt at about 4 or so percent today and turn that into equity at 12%, you got a very interesting position borrowing somebody else's money and getting 8%. But, you then have an indebtedness that you have to deal with in the long haul and when we get into the TRANSCO we'll talk about that. The only other interesting thing that you might want to look at is the last page. Let's go to the page before the last page under this tab. Its entitled 'CMEEC Debt Service Amortization' and bullets amortized ratably. We have one bullet on down there that come due in 2021 but we do have a, not a fully authorized fund but we are collecting funds and put aside. But if you look at the column under South Norwalk, right now our total outstanding debt is 10.8 million dollars. That's CMEEC debt that we are responsible for under the power sales agreement. And you can see the list of amortizations and you can see that most of it, a good portion of it is going to be paid down in the December 16, that's December 2016 – December 2017 range. That is when the original bonds that the rate stabilization fund was supposed to cover, expire. Its done, they're paid off at that point. And you can see where a million, a million a million each year. So that's another number that's kind of helpful to put into context. You will also see that in addition to the five members on CMEEC which are listed first, Groton, Norwich, Jewett City, East Norwalk and South Norwalk, Wallingford, Bozrah, and MTUA, Mohegan Tribe, also have debt that is on CMEEC's books as being paid of where they're responsible for. And just like us its getting paid off through the rates that we pay every month, every year. So that's sort of the context of what the Municipal Trust is. The time frame in which we would need to make a decision as to whether we would agree to use any amount of the trust, and we are not talking about the full amount, and you'll see that when we get to the TRANSCO documents, and nowhere near the full amount. And actually, in aggregate, we're only talking 12 to 18 million dollars of the fund to share between all of us in the same prorated share. It has to be done probably at our October meeting. So, each of the systems by the end of October would have to agree to use these funds. We think each system independently decide whether they want to use them or not and the extent of use. All of this you will hear at the next two meetings because we're going to get into a little bit more detail finance as we go. On Thursday, CMEEC is going to be dealing with the TRANSCO and whether we're going to sign the documents to proceed with the transaction. That's based on a recommendation of the Budget and Finance Committee that we have standard approvable bond financing to go forward with the project. So if the system shows not to use the trust, its okay. We'll use the bond instead. That's why the decision has to be made in October, because we have to then issue the bond request for the bond issue on the street. So that's sort of the time frames we'll be dealing with."

Commissioner Ayme: "Any questions?"

Mr. Hiscock: "That's all I have on this issue."

Commissioner Ayme: "Any questions?"

Commissioner Borges-Lopez: "No questions."

Commissioner Ayme: "All right, I have one. This TRANSCO system, we will own a portion of that."

Mr. Hiscock: "Yes, yes."

Commissioner Ayme: "We have already voted to go ahead with this here, at our prior meeting."

Mr. Hiscock" "We have voted to become a member of the TRANSCO."

Commissioner Ayme: "Right."

Mr. Hiscock: "We have not agreed to participate in this asset purchase. And that is an important distinction. You can be a member of the TRANSCO, but you don't have to participate in this asset purchase. So you can be a member of the TRANSCO but you have essentially have no skin in the game. Okay. Now, that's not going to happen because of the rewards of being part of the TRANSCO. I'm assuming everybody is going to want to be in. But, what we've done is become a member. We will have to elect at some point in time, probably also in the October time frame, or maybe September as to whether or not we wish to be part of this first asset purchase and I'll get to that when we move to Executive Session. "

Commissioner Ayme: "Okay. Okay."

Mr. Hiscock: "So we've partially gotten there. We're a member of the TRANSCO. So now we can elect to participate in the first asset purchase which is 50 million dollars worth of transmission assets."

Commissioner Ayme: "All right. We can discuss your recommendation in the Executive Session then."

Mr. Hiscock: "Yes."

Commissioner Ayme: "Okay, good. Any questions? I move on the agenda, unless... Are you finished with the presentation Mr. Hiscock?"

Mr. Hiscock: "I am finished with the presentation on the trust, yes."

Commissioner Ayme: "Okay."

Mr. Hiscock: "And I have some portions of the TRANSCO that need to be done public, then we can go into Executive Session."

Commissioner Ayme: "Okay. All right, we need a motion to move to Executive Session."

Mr. Hiscock: "Can we put something on the record first before we go into Executive Session on this item?"

Commissioner Ayme: "Right."

Mr. Hiscock: "Okay. Procedurally, CMEEC is going to make certain decisions Thursday of this week that relate to the TRANSCO and whether or not we're going forward with the asset purchase. When and if we go forward we will adopt a resolution which upon adoption will become public record. And then I will transmit that to you. I'll go over it in Executive Session, but procedurally

what will happen is on Thursday, if the cooperative goes forward to put this transaction together from our side, we'll issue a resolution. It will move through this process but the long and the short of the TRANSCO situation is we are trying to close this by the end of the year. So, these are the time frames we'll be dealing with. Again we'll have some September, October issues to deal with. Each system will be asked if they're participating in this 50 million dollar asset purchase or not. As to the details of the structure and the relationship between NU, CMEEC and SNEW, because none of the contracts are finalized at this point, we will need to go to Executive Session to discuss those contracts and how they affect us. Now we can, if you so desire we can move."

Commissioner Ayme "Okay. We need to move into Executive Session."

Commissioner Geake: "I second. I make a motion."

Commissioner Borges-Lopez: "Second."

Commissioner Ayme: "Can you state your purpose? Can you state the purpose?"

Commissioner Geake: "Oh, to move into Executive Session."

Mr. Hiscock: "To discuss the contract."

Commissioner Geake: "Oh, to discuss the contract."

Commissioner Ayme: "Okay."

Mr. Hiscock: "If you would take one and pass it down so we can get this document to others. This is a public document. There is nothing mystery about this at all. Okay. This is an easy one. We're only going to look at a certain portion of it and [Inaudible] it."

Commissioner Geake: "And that's it."

Mr. Hiscock: "All right, so we are on the item 6 – Local Facilities Contracts Settlement. We are going to talk publicly about portion of it and then we are going to go into executive session. So, local facilities are those things that CL&P owns that brings power to us, and we talked about this a lot, from the grid, ISO Control Grid down to us, the 27-6 lines that come in underground down Flax Hill and overhead down Highland through right of ways up South Main and into our plant. These are the two feeds. These are the feeds that have been giving us all the trouble. These are the feeds that create all the power outages. These are the feeds that have just been very, very difficult. They are very old. The one that comes down Flax Hill is as old as anybody can remember from the 30s (1930), very old, fully depreciated. The second line is from the early 90s (1990) when we didn't have enough through the Flax Hill line to feed us and the Wilson Avenue sub-station. We took the two lines that came down Flax Hill tied them into one and then created the second loop jointly with CL&P, although they owned everything, to go to their Wilson Avenue sub-station and come back to us. So we've got these two lines, maybe there are some pictures here. They'll be helpful. When we joined CMEEC in the mid 80s (1980), we agreed that CMEEC would purchase these local transmission services from CL&P for us, because they will do it for Third (district), they would do it us and that would do it for Jewett City. Okay, and it was okay. Everything was older heavily depreciated. It wasn't a real big issue. Plus they were using the facilities, so through our bill to

CMEEC, each and every month we paid a local facilities charge. It was included in something called the CTSA, The Connecticut something Transmission Agreement and part of it was local facilities. This document you see in front of you are the charges we've been having to pay. If you look at the top, you'll see a simple matrix 97 (1997) through 2010, January through December. No worry about the month other than you'll see some true up corrections where they look out of whack to you and I can explain those. Bottom line is totaled. In 1997 for this service, we paid 58 thousand dollars a year and in 2009, after the true up, its going to be 639 thousand. These are all ugly numbers. We talked about them before and I told you this is the reason we need to build our own sub-stations, so I acquired the land. This is why we hired a consultant. This is why we are doing some siting council work. Okay. The uglier number is the 2010 number of \$999,936. That's a pretty big number. That's a very big number. That's an astronomical number. And you can see that, you know, it was going up a little bit and it started to escalate in about 2001, because CL&P started dropping off. We were sharing this facility with them. Then we started dropping load off, and we were taking larger and larger shares. It didn't really go, well, I'll call it south, until about 2004 when they started building the 9S sub-station. That's when the loop started. You know, there's 345 loop that we all heard about, all the wires and all the construction that went on and the stuff that's going on at New Canaan Avenue today. Two things happened, 1; they abandoned a bunch of switch gear that was fully depreciated. We only pay based on the book value. So the old stuff we pay nothing on, well, they replaced it with new stuff. New stuff is expensive and is not depreciating. So now we are paying the carrying charges as a percentage of that, about 25, 26, 27%. Big number. So far every million dollar they put into the ground, we pay 250,000 thousand dollars a year. That's just ugly. That's to start with. For us, we bonded ourselves, that's 50,000 dollars a year. It's awful. We have different structures. And as part of that they took some of what used to be considered transmission assets, and reclassified than for distribution assets. So now, we are paying on assets that we never paid for before. So, it got bad. And you can see in 2005 it was 319 (thousand), 2006 was 567 (thousand), 2007 was 628 (thousand) and its started to level off for 2007, 2008 and 2009. We were doing good, okay. The charges have hit us. We swallowed it. In about 2008, CL&P came to us and said 'you know what?' we're over dutied in our 27-6. Center of Norwalk has an increased load. We are moving you to Flax Hill. They have the right to make that decision under the CTSA and the local facilities portion. So what did they do? They took us off the 9S and replaced us with transformer of Flax Hill. Again, brand new stuff, brand news poles, brand new wires, brand new dollars, so..."

Commissioner Borges-Lopez: "Brand new cost."

Mr. Hiscock: "Brand new cost, so the 2010 number goes to 990,000 dollars. At the same time the CTSA became obsolete with the new ISO regime, so CL&P said we are going to end it and we are going for extended charges. We've been complaining to them, we've been negotiating with them and why I would like to move to Executive Session to do is to discuss a settlement. Okay, but I wanted to give you the background in the open session because this is all public information. Anybody can grab this any time they want from the DPUC or from anybody else. So, at this point I need to stop and go into Executive Session to talk to you about a settlement that is very closed."

Commissioner Ayme: "I make a motion."

Commissioner Mann: "I make a motion to go into executive session."

Commissioner Geake: "I second it."

EXECUTIVE SESSION:

The District Commissioners moved into executive session. The purpose of the executive session was to discuss Contracts and their affects on SNEW.

No action taken.

EXECUTIVE SESSION:

The District Commissioners continued executive session. The purpose was Contract Settlement with NU/CL&P.

No action taken.

REGULAR SESSION:

Commissioner Ayme: "Motion for adjournment? No, for the record, no public participation. For the record, no public participation. Motion for adjournment."

Commission Mann: "Second."

Adjournment

The meeting adjourned at 8:51 p.m.

Attest:

Candace Pampoukidis
District Clerk

Transcribed by: Connie Farrugia
Reviewed by: Gwendolyn Gonzalez