

SECOND TAXING DISTRICT COMMISSIONERS
Special Meeting
February 9, 2012

Present:	Mary E. Burgess Al Ayme Maria Borges-Lopez Mary Geake Sherelle Harris Mary Mann Cesar Ramirez	Chairperson Vice Chairperson
Also Present:	John M. Hiscock Gwendolyn Gonzalez Kevin Barber Mayhew Seavey	General Manager Asst. District Clerk Consultant
Public Present:	Jim Clark Jim Delgreco	Golden Hill Association Golden Hill Association

Call to Order

Chairperson Mary E. Burgess called the Special Meeting of the Second Taxing District Commissioners to order at 7:03 p.m. on Thursday February 9, 2012. The meeting was held at South Norwalk Electric and Water, One State Street, South Norwalk Connecticut.

Commissioner Burgess: "I will call this Special Meeting of the Second Taxing District Commissioners for the City of Norwalk to order, at 7:03 p.m. I will turn the presentation over to our General Manager and our Consultant.

Public Presentation of an Electric Rate Study and Report

Mr. Hiscock: "Okay, Good Evening, welcome we are to go over this evening some issue with respect to a SNEW rate increase and a change in the actual rate structure so that going forward if this is approved you will be billed in a different way, for the residential customers it won't make a lot difference, the bill will look slightly different for the commercial customer it will look significantly different, okay. I'm going to start off with some."

Jim Clark: "May I?"

Mr. Hiscock: "Yes."

Jim Clark: "Just because I know sometimes when you talk you, sometimes you can't? And this is an open meeting where we can ask questions and make comments as we go."

Mr. Hiscock: "I think that will work best, because it will be probably more effective than trying to hold it up and do it at the end."

Jim Clark: "Okay good."

Mr. Hiscock: "So I don't have a problem with that, unless we bog down with so many questions and so much detail that we don't get to the end and that you know."

Jim Delgreco: "Well we have all night right?"

Mr. Hiscock: "You do?"

Commissioner Geake: "Yeah, yeah, some of us do."

Laughter

Mr. Hiscock: "What time is your train in the morning?"

Jim Delgreco: "We both have to leave at 4:30 in the morning, so we can stay till then."

Mr. Hiscock: "Okay, good, catch a nap on the train?"

Jim Delgreco: "Exactly."

Mr. Hiscock: I was going to do it that way but that's okay. We're going to be here a while so if you don't mind I'm going to stay seated otherwise I'll be wandering all over the place."

Jim Clark: "I'll start by saying when we have acronyms, just don't assume that we all know the acronyms, and at least one time give words."

Mr. Hiscock: "Absolutely, and I think we have enough copies for everybody so I'm going to hand them out so you can sort of read along with us. There's 20 copies some of you might have to share. Okay, I assume everybody can hear me without too much trouble? I'll start off with some basics SNEW (which is us) purchased all of its power from CMEEC, CMEEC is the Connecticut Municipal Electric Energy Cooperative. Now SNEW is an Owner and a Member of the Cooperative, the Cooperative consist of SNEW, The Third Taxing District in Norwalk, Norwich, Groton, and a little community that you may not know where it is Jewett City which is just sort of north of Norwich and it's really is not a normal community its sort of a hybrid, those are the five members the Cooperative. It was formed in about 1980 and in about 1986 or 87, SNEW and TTD joined the Cooperative, in addition to supplying power to its members it supplies Wallingford which is a municipal utility, that is not a member but we call them a participant. It supplies power to Bozrah which is a former private utility purchased by the City of Groton, and the Mohegan Tribal Authority. The Mohegan Sun is supplied power

from this Cooperative, so you can get a feel for the size of it. It's about 5% of the power supplied in the entire state."

Jim Delgreco: "Are they all about the same size as?"

Mr. Hiscock: "No, Jewett City is the smallest and has about 1,000 customers, the largest is Wallingford which is close to ten times our size, and our size is 6,000 that puts them in the 50,000 customer range. Alright, now this is a issue that's is important to all of us SNEW controls only 9% of the CMEEC Board voting power, while we have rules that the Board consist of two members individuals from each utility and for most issues we vote one member one vote but in the statue and in the bylaws of the group, if someone calls for a weighted vote it's based on the number of kilowatt hours sold by the system in the prior year, sort of like when you go to a stockholders meeting and you own so many shares and the guy next to you owns a hundred times more shares than you, he gets a hundred times more votes than you. Okay."

Jim Clark: "(Inaudible) Weighted the 9% comes from that?"

Mr. Hiscock: "Yes, okay so we are 9% of the member power load and if you add in Wallingford we drop down to 5%, so you can see we are a very small portion of the Cooperative and consequently while we get along very well in the Cooperative and for the most part its congenial and we go through the one person one vote, it's always the ability for anybody to call for a member vote by weight and that's when trouble starts, so SNEW has no real power, power is a bad word to use here, very little control."

Jim Clark: "When was the last time that they called for a weighted vote? Does it happen often?"

Mr. Hiscock: "No, no one remembers who's on the current Board of anybody ever calling for it, but you like the issue foreclosure on your house."

Jim Clark: "Semi-verbally it's good to know, or is something both Groton or (inaudible) basically."

Mr. Hiscock: "No, because lets use eminent domain, when somebody has eminent domain and comes to you and says I'm going to pay you this much for you house and you haggle back and forth and you're always haggling always knowing that the guy has the trump card, Groton has the trump card okay."

Jim Delgreco: "And if you want to pull out the Cooperative can you?"

Mr. Hiscock: "Not currently, I've spent the last."

Jim Clark: "No pun intended."

Mr. Hiscock: “No, at this point and the reason I put it this way is because for the last 2½ years I have been negotiating new contacts with the Cooperative to change the entire structure, it’s been agreed to by the other members in principle SNEW raised this issue 2½ years the last time we issued bonding, bonding can only be issued right now if everyone of the Members agrees. The weighted issue doesn’t count anymore it has to be a unanimous vote of the Members to do bonding so the last time we did bonding SNEW objected to it and SNEW took the position that it wasn’t going to agree, as a result of the that the statute was changed in the last legislative session effective October of 11, which allows withdrawal, now without unanimous consent of all the other Members and if there is debt provided you put up security, it’s an extraordinary complex contracts, and we’re going at that and that’s how I’m going to put it to you, hopefully by this time next year there will be ways to withdraw if you meet all of your obligations, but complex difficult but yet you’re able to withdraw. The reason for this is bonding it has to do with bonded indebtedness and the bond holder’s security that’s required to get a good bond rating and good interest. I know that was a longer than you wanted but that’s where we are with that explanation, okay we are working towards a more equitable relationship so that if you become disgruntled if you believe you are being dealt unfairly you go through a fairly complex process but you can remove yourself. Right now because he haven’t finalized anything other than the statue change SNEW cannot exit from the Cooperative until December 1 of 2029, even if this changes the very earliest we could withdraw will be December, maybe its November of 17, if one of the bond issues is refinanced otherwise it wise it would be 2021, this is a very complex deal okay, I’m going to move on or we will be here for a long time. It’s something that you probably need to know purchase power what we the Cooperative for power is 70% of our operating revenues, so 70% of the money we take in from rate payers goes straight to the Cooperative for power. That’s a fairly large number but that’s what it is, prior and I’ve got to chart you’ll see in a minute but prior to approximately 2005 it was 60%. Cost of wholesale power verse operating revenue this is sort of a interesting chart for you to look at and think about total operating revenue is the second column front the left obviously the left column is fiscal year ending, and our operating revenue in 2011 was \$16 million and in 2002 it was \$10 million and most of this is wholesale power cost, if you move over one column you’ll see purchased electricity last year it was \$11 million in 2002 it was just slightly under \$6 [million], the next column over is net revenue that is the revenue left after we pay for power and you can see that in 2002 it was \$4 million and in 2011 it was essentially \$5 million, so while it sound like we collect a lot of money there’s not a whole lot comparably left over to run the operation, okay.”

Jim Clark: “Question John, once again excuse me if these are very basic questions.”

Mr. Hiscock: “Sure.”

Jim Clark: “Are there other options for purchasing electricity, within the big picture? I mean basically you can only purchase from the one place that’s the biggest expense? So how does that work? I don’t know if that a basic question but a fundamental one.”

Mr. Hiscock: “Yes, the fundamental arrangement between the parties is an all requirements contract, we are required to purchase all of our supplies from the Cooperative, and that was part of the arrangement when we joined in about [19]87.”

Jim Clark: “If you were to make that agreement today, would you do that same agreement? It’s equitable enough that it would be or would you (inaudible) a fresh start?”

Mr. Hiscock: I was not involved in 87, other than from the District perspective and my understanding and based on my knowledge over the last ten years being on the Board and actually being Chairman of the Cooperative Board, SNEW is faced with essentially the lesser of two evils, it was either going to continue to do business with CL&P, which was my understanding costing them significant money in rate arguments with CL&P and CL&P was putting them in a very disadvantaged position and the Cooperative was a better financial deal but it came with this extraordinarily difficult arrangement which essentially you are unable to extract yourself from, so once in you’re in okay. This is going to help you a little bit to understand the rate consultant’s analysis and information that you will get shortly. SNEW has \$5.88 million dollars at CMEEC in something called the Competitive Municipal Trust it’s a trust that controlled and managed by CMEEC the beneficiary is SNEW it’s our money we don’t hold it, it use to be part of a rate stabilization fund it was created during the deregulation time frame, because of something and I don’t want to get into the weeds as we call it, it was designed to take care of a time period in which CL&P’s stranded cost were not longer being paid by rate payers which would allow CL&P to slightly drop their rates but yet we still had at the Cooperative some debt that we were paying off for stranded cost, so we saved a lot of money up and put it in a bucket CL&P has finished their stranded cost we are still paying the debt through [20] 17. The rules allow us with withdrawal up to 20% of that amount of money in any given year for either rate stabilization or a capital project, those are rules that the systems have agreed to and signed an agreement so we can remove up to 20% a year in I believe November the District Commissioner at our recommendation sent a letter to the CMMEC Board indicating that we were going to withdraw during 2012 one million dollars, to move into the rate stabilization fund because we going through this process we’ve been at this for almost a year now dealing with rates, and trying to decide how we were going to deal with it, 20% a year limit. It’s in a trust managed by a trust manager and gets a return on it, and certainly the return it’s getting today is certainly is not anywhere near where it use to be.”

Jim Delgreco: “Can I ask a question about that? So if I understood you correctly there are either bonding that has to be paid off by 2017 this money goes to paying off?”

Mr. Hiscock: “Yes, and in fact we crossed the, as the value of the trust increased by us putting money into it and interest we got to a point about I think and I’m not exactly sure the dates but in the late 2008 early 2009 time frame because the debt is being paid down, so that curbs crossed and they crossed late 08 early 09 time frame, so our obligation currently for that debt is probably maybe \$5 million somewhere in that range. Now the

consultant will after I introduce him will talk a little bit about the rates and what we've been doing to avoid absolutely avoiding our rates being higher than CL&P, and that been a goal for the whole year talking about how we were going to deal with that so this million dollars that we are moving and it hasn't actually moved it just the authorization to move was done and they've approved it. It takes a Board approval but it can't unreasonably be withheld, so we pull \$1,000,000, out we could have pulled \$1,177,770, but we did not so I've got a column all the way to right that says committed and I'll explain that in a minute, so it's a \$1,000,000 currently committed to electric rate support and that \$1,000,000 comes out of the Competitive Municipal Trust and it makes sense in relationship to how it was originally developed, and why it was developed now in addition to that we have been looking at what options we have to add additional money for electric rate support to keep the rates in at least a reasonable level compared to the market place maybe that the best way to say it. We have an Economic Development Fund that has \$1,068,578 the Economic Development Fund is also held at CMEEC but the absolute and total control over that fund is SNEW's discretion, simply takes a letter to CMEEC telling them what to do with the funds. In July 2001, ten years ago SNEW Management committed very specifically the then Electric Commission because we weren't combined at that point, that it would not spend any money from the Economic Development Fund without Commission Approval, so there have been no withdrawals from that fund since 2001 and they would have been done at a public meeting so the balance is very high and on our part its optional we can tell CMEEC not to take money out of our rate stabilization fund and accumulate there, we've chosen to leave it there. Under CMEEC's rules it simply takes a letter from Management to withdraw but our commitment to the Board is that we would not do that. The next place that we can take money for electric rate support is from pure cash, the offsite by liabilities such as the customer deposit fund which is not our money we have about \$12,000,000 in cash sitting in the electric side of the balance sheet."

Jim Clark: "Not including customer deposits fund?"

Mr. Hiscock: "Not including the customer deposit, it's a little if you look back at the balance sheet over time the cash was significantly lower and the investments were higher because they were mostly longer term CD's well as the CD's have disappeared, we all know they are virtually down to no interest money is sitting in essentially a money market fund, so it's all short term money so as you look at the balance sheet over time the investments have dropped dramatically the pure cash as increased dramatically and but it always, and there's another chart and it'll show you how that's changed at the top, so what so we think we need to create at least bearable electric rates so that our customers are not paying more than CL&P, working with the consultant and you'll see a little bit more detail we've concluded it will take \$1.75 million that would have to essentially use to lower the cost of the wholesale power, right now we are paying 11¢ a kWh for wholesale power and in order to make that more competitive it's going to take \$1.75 million."

Jim Delgreco: "Is that every year you are going to need that? Or..."

Mr. Hiscock: "Yes."

Jim Delgreco: "How are you? So this is a one year fix?"

Mr. Hiscock: "Now we are going to get to that in the next slide or two, but it's a one year fix."

Jim Delgreco: "Now before you go on so if I understand this correctly you still have this bond (inaudible) 2017, and that more or less \$5 million was suppose to pay that bond off but you're feeling is you can withdraw money from that because there is enough money left to pay off the bond?"

Mr. Hiscock: "No, because we also in that 11¢ a kWh is included the principle interest on the bond our share, so that through rates our normal rates for wholesale power we are providing the debt service for the bond."

Jim Delgreco: "So you could actually (inaudible) five years if you over take out the 20% each year."

Mr. Hiscock: "Correct."

Jim Delgreco: "And not affect that 11¢, you've already figured that in."

Mr. Hiscock: "Yes."

Jim Delgreco: "And conceivably that the cash that you have sitting in the bank the \$12,500,000 again you can draw down or is that too dangerous because like the City needs to maintain x amount of \$26,000,000 in order to maintain triple bond rating?"

Mr. Hiscock: "Yes, that's and issue we don't want to draw cash down significantly because we've got a Aa1 bond rating the City has a Triple A bond rating and as long as they stay a Triple A we can stay a Aa1, presuming the rating agency likes what they see and if pay attention to finances the should."

Jim Delgreco: "So you can take money out of the competitive the \$5,000.000 (inaudible) economic fund and then you gotta be careful how much money you take out of cash."

Mr. Hiscock: "Correct, okay. Now this is what is going to make this a little bit more (inaudible) I think, CMMEC current wholesale rates are higher than the current spot market, okay that was not always the case we were paying considerably less for power and you and see the numbers in the early thousands in 2002 -2006, 07 range because we were doing a better job of buying power than CL&P, were we doing a better job of buying power than CL&P, not because we were a whole lot smarter than CL&P although we were a little smarter, and we in this case meaning the Cooperative but CL&P was forced to purchase power by the regulator the Department of Utility Control, or

whatever happens to be called in blocks that in ways that made little sense in the market place, so they were at a disadvantage maybe through their own faults but certainly through the regulators fault and actually the Cooperative helped the regulator about the way we purchased and it was notorious for a long time that we were so much cheaper than CL&P and it was notorious and I think everybody here who paid their bill knew it was notorious okay, what happened, we all know that energy prices went through the roof in [200] 7,8,9 range oil prices went high, gas prices went really high gas and natural gas when we buy power in lot we buy it in stripes time frame oriented in what's called the forward market we're buying power now for 2010,11,12 we buy a percentage of our portfolio that's covered, next year we've got about 90% covered then you get out to 2014, 15 maybe we only have 30% of it covered and buy it in what are called strips it's a you know we buy so many mega watts at a certain price for you know a couple of years in a time frame. Now generally we pre purchase gas and the reason we pre purchase gas was to keep the price of power level if you buy in the spot market it can go up and down an fluctuate, if you buy in the forward market you have a very stable prices and that's what we did. Now gas went through the roof we were still very competitive cause we had cheap forward gas others got affected by that, their rates went higher than ours and it was even better for us, gas starting, Mayhew you may know better than I but it was about 09,10 it started to drop?"

Mayhew Seavey: "August of 2008, it started to fall."

Mr. Hiscock: "August of 08, I'm going to introduce Mayhew in a minute, okay, it started to drop and as it started to drop the power purchasers for CMEEC made some decisions and some assumptions and pre purchase gas through about 13 think they were going to get a good deal for stability well we all know what's happen to the price of gas it's fallen through the floor and supplies are abundant or at least we think they are abundant we have all sorts of things that are providing a lot of gas including the Shell gas and for the foreseeable future gas is cheap."

Jim Delgreco: "What would you classify foreseeable future?"

Mr. Hiscock: "I've seen people that are talking through 16,17,18,19 even longer now this is all speculative cause you don't know what going to happen with environmental issues, I mean you know everybody guess it's a commodity market, you know and if we knew what was going to happen we wouldn't all be in the room we would all be in Florida having fun its winter time, or skiing for those who like to do that. The good news for us is most of our expensive gas burns off in late 13 and I guess burn is not that's also not intended to be a pun, so to answer your question. "

Jim Delgreco: "So the difficulty."

Mr. Hiscock: "It's not going to be the five year time frame, two or three and you know we purchased it in blocks so some of it may tail into 14 but the bulk of it goes late 13.

That will drive down our wholesale cost of power and get it close to market power at least reasonably close.”

Jim Clark: “(inaudible) the need for \$1.75 million?”

Mr. Hiscock: “It will lower the need for subsidization at that point, yes, but probably a significant portion of it, probably a very significant portion of it and maybe all of it, I don’t know, I mean from a customer view point you don’t want to see the gas price go up if you were a utility manager that didn’t care about your customers, considering where we are we would be overjoyed at the price of gas went up because everybody else’s power would be where it is and we would be stable, but you know that’s not a good thing either. Okay, that the issue it has to do with essentially a bet that was made and I don’t mean to put it in terms of a foolish wager it was a decision that was made, it was a decision that was made at that point and time in the commodities market that was a good purchase. In retrospect it didn’t turn out to be that that’s all you can say, and for all those year were in a great spot so now okay we’ve flipped around we’re the other way. The final part of this is the new rates we’re going to unbundle them, we’re going to make them look a little more like CL&P’s bill.”

Jim Clark: “Can I ask you to just give a primer on the difference between bundled and unbundled, cause you know these terms and I think we necessarily understands.”

Mr. Hiscock: “I think when Mayhew does his presentation he has some charts that will show you the difference, okay, what it really does...”

Jim Delgreco: “Is that basically when get you bill, you just see the underlined cost?”

Mr. Hiscock: “When you get the bill you will see the generation services charge or something similar to that which will be very similar to the mailers that you get from the third parties suppliers that you are not allowed to take advantage because you’re in our service territory, but you do know that the current rate is I guess in the 8¢ range, and if we don’t subsidize ours it will be in the 11¢ range and that’s not a pleasant picture and the rate consultant will go over that detail. So, it will list the service charge it’ll list the generation service charge which is essentially what you all hear about you know so many cents a kWh and it’ll list the distribution charges. The distribution charges is what it cost SNEW to do its business that’s the money, the distribution and service charges are the monies that come to SNEW to run the business, they energy and demand charges the way I listed them is not quite exactly right, I was thinking of them from the wholesale side but those are the charges that go to the supplier of energy, okay, and that’s my presentation to tell you how we operate so when we get to the rate you’ll understand more what we are trying to do. Now early last year early in [20] 11 we sent a request for proposal out for rate consultants because we haven’t hired a rate consultant in many, many years we received proposals and a result of the proposal received we hired firm called PLM Power Engineering LLC.”

Mayhew Seavey: "Power Line Model."

Mr. Hiscock: "Power Line Model, and the professional that is doing the rate analysis is here this evening its Mayhew Seavey, has a reputation for doing rate in New England for a very, very long time well known rate consultant and at this point I'm going to turn him, and he's going go through his presentation and we'll go from there, and just as you asked me questions feel free to ask Mayhew questions and if we really drag I'll try to move you along and this is going to be more complex than what I talked about."

Mayhew Seavey: "Good evening I'm Mayhew Seavey I'm a principle with PLM Electric Power Engineering, in Hopkinton, Massachusetts I've been designing retail rates for municipal electric utilities for about twenty five years at one time or another I've done rate designs for about ¾ of the municipal electric utilities in Massachusetts and Rhode Island, most of the municipal are in Massachusetts. There are forty municipal utilities in Massachusetts. We were asked to do a complete review of the SNEW the present SNEW rates and give it a brief that calls for restructuring rates to make them basically bring them in to the 21st century because that hadn't been reviewed for some time and we've done that. We start out with an overview of how we do this rate how we do rate design, we start out by constructing what's called a historic test year cost of service model, which is a fancy way of saying it's a spreadsheet, it allocates all of the cost what the utilities incurs to each of the different classes of customers based on a number of different factor that are well established industry standard allocation factors what this allows us to do it allows us to show how the present rates are performing, it lets you see how much you are earning from each different group of customers residential, small commercial, large commercial, and it also verifies that the model is capable of correctly calculating revenues, that when go to plug in new rates, new cost into you can have faith that the model is going to do what you want it to do. We then construct what's called a future test year cost of service model which plugs in instead of the actual number, it plugs in your budget numbers for a test year which in this case it was fiscal 2012 and then gives you a platform for that we can use to design new rates and see how they compare and how they perform. The objectives that we started out with were to insure that the revenues were adequate to cover expenses preferably over a long term. To review and modernize the structure of the rates to be consistent with contemporary utility practice in other words to make them look like CL&P rates and less like what CL&P's rates looked like twenty years ago when they were originally designed. We were asked to explore the feasibility and desirability of fully unbundling the rates and to work with SNEW to develop a policy regarding rate equity the relative rates of return to try to move towards being fair and more equitable process to all the different class of customers and finally to look at feasibility and desirability of time-of-of use rates. With all of the smart meters that are being deployed you have the ability to be able to bill customers on time-of-of use bases so we wanna look at whether that's possible and whether it makes any sense to do it now, and we'll talk briefly about that later."

Jim Delgreco: "Mayhew if I can ask?"

Mayhew Seavey: "Sure."

Jim Delgreco: "The idea with this is to bring really more clarity right to how the power is charged verse kind of fumbling along and obscuring the numbers?"

Mayhew Seavey: "That's right yeah it's clarity, there's certain (inaudible) between clarity and readability but yes the idea is that, there are a lot of cost that are bundled into one number and particularly since deregulation has required CL&P and all the other private utilities to break out certain components of the cost into separate components it's impossible for SNEW customers to compare the cost of each of those pieces to what CL&P is charging. So that's the idea to make them more comparable and to make them clearer."

Jim Delgreco: "And so pretty much everybody in the industry is doing this now?"

Mayhew Seavey: "Certainly on the regulated side, Municipal utilities have lagged behind for two reasons one usually they are not regulated and therefore not required and two their billing systems are often not capable of handling an unbundled rate without a lot of fairly expensive reprogramming."

Jim Delgreco: "And is our system capable of doing that?"

Mayhew Seavey: "We believe so. Yes."

Jim Clark: "What about the time of use rates? Are you covering later?"

Mayhew Seavey: "I will talk about that, but we can talk about it now, but the basic problem with establishing a time of use rate now is in the fact the wholesale billing from the Cooperative because that main expense that's 70% that's purchased power is being billed on flat cents per kWh price, so there's no price signal in that to pass on to the customers. So until that price can get restructured and I understand its some work that being done to try and make that happen."

Mr. Hiscock: "We are working at the Cooperative level in creating billing that could be utilized for time of use situation it's not prepared we are spending several million dollars in modifying a lot of our software that will provide all of this information in a little more detail so we could go to that kind of rate structure."

Jim Delgreco: "And you're able to capture right now how much each house uses on easy bases? Or is that guess work? How does that work? I know they have meters on the side of the house but."

Mr. Hiscock: "We just changed out our entire meter system to radio read meters, we no longer have meter readers they perform other functions but I think you say we are currently reading once a hour."

Kevin Barber: "We currently read on an hourly bases, we obtain reading from all."

Mr. Hiscock: "We could go down to fifteen minutes reading if we wanted."

Kevin Barber: "We could go down to five minutes actually to that level."

Mayhew Seavey: "The data is there it's simply a matter of having."

Laughter

Jim Delgreco: "So basically you can tell me for a month how much I actually use."

Mr. Hiscock: "We can tell you in fifteen minute intervals."

Jim Delgreco: "And charge me exactly what I use for that month."

Mr. Hiscock: "If we were billed that way, yes we could that for you, but we are not billed that way so we cannot do that. Kevin, Kevin Barber of our staff is working on a meter data management systems which is a massive computer system database which is going to allow us to web base information to customers, and he's been working on that for a very long time along with some other munies at the Cooperative, so we are moving rapidly in that direction, but right now we read you meters every hour, we only bill you, we take a reading at the beginning of the month and the end, well we take a reading at the end of every month and we bill you for the past month that's what we are doing now. Okay, but we have the capability to go much, much more detail."

Mayhew Seavey: "So umm the result of the historic test year which was based on fiscal 10 was that revenues didn't cover expenses and that the what we call the rate of return the profit essentially the margin on each of the different customer classes was highly uneven and you can see on the chart here that residential sales basically loss 16.5%, and the commercial and municipal earned over 16% so there was more than a 30% point spread between the lowest earning class and the highest earning class, which is pretty extreme. We typically see in municipal utility rate making that the residential class will be anywhere from 0 to -5% because typically the residential class being essentially the owners of the municipality are given a nonprofit rate and then commercial various, commercial class is earning anywhere from 4 to 15, 20% so."

Jim Clark: "(Inaudible) the reason for the negative here as well, cause its?"

Mayhew Seavey: "Historically there's an enormous incentive to keep residential rates low."

Jim Delgreco: "So basically we lost 3% last year?"

Mayhew Seavey: "Lost 3% that right."

Jim Delgreco: "And how did we make up that 3% or we haven't?"

Mayhew Seavey: "I'm assuming it would have come out of retained."

Mr. Hiscock: "Retainer, essentially depreciation."

Mayhew Seavey: "So clearly that's not a sustainable situation to use to use the currently fashionably term, as so something needed to happen. So the design basis that we developed for proposed rates was first, was to move the rates of return closer to each other, now to do anything radical because the analysis that we did showed that if you were just to levelize the rate of return even across all classes it would've resulted in a 20% increase for residential customers which is clearly not an acceptable change. So we're going to move in that direction, in the direction of making the rates more uniformed we need to maintain competitiveness with CL&P, the when we originally designed the rates last fall the rates would have been competitive with CL&P and it would have been a about a 14% increase, January 1, CL&P rates fell by more than 10% and so that was when it was decided that made sense to use the rate stabilization funds and the other fund to get the cost of purchase power down to the level where CL&P's cost of power is, and we also finally had to lower the overall rate of return from the target that we had originally set of 5% down to only 2.5% basically to earn a little bit less net income. Then finally we were to unbundle all the rates and simplify class rate structure and I go through each of these in term."

Jim Delgreco: "Before you go on I don't understand the lower overall rate of return to 2.5%. I don't understand (inaudible)"

Mayhew Seavey: "We started out the initial rate design the target that we were given was the 5% was a level of net income that felt comfortable to SNEW to be able to earn."

Mr. Hiscock: "There's a statutory provision that really is very old in the statutes and really hasn't, let's put it this way a lot of the utilities haven't been earning exactly was indicated, if you read the statutes for Municipal Electric Utilities we're suppose to earn between 5-8%."

Jim Delgreco: "When you say earn is that profit?"

Mayhew Seavey: "Profit for Municipal Utilities is usually called its called net income that's essentially what it is it's the difference between expenses and revenue."

Jim Delgreco: "And what do you do with the 5%?"

Mr. Hiscock: "Capital Improvements, that money that's what it's designed for."

Jim Delgreco: "And that you want to lower to 2.5%, because of what's going on."

Mayhew Seavey: "That's right, so essentially reduces the amount of money at least for the time being for capital improvements."

Jim Delgreco: "And because we're talking about a two year period we kind of feel like (inaudible) through this pressure, we could reduce that rate of return to zero during that two years in order to, again help defray the cost of what's going on again an example, if I don't have the money I'm going to reduce as much as I can during that time period to get over that hump, is that an option or legally you can't do that?"

Mayhew Seavey: "It makes more sense rather than to build that into the base rate which has to be any change in the rate has to be approved at a hearing like this once the rate is established it makes more sense to do that through the mechanism of the generation charge or the purchase power adjustment which can be, which is a formula charge which can be changed monthly or quarterly so."

Jim Delgreco: "Okay, whatever you just said sounds great but what you're saying is no? You can't reduce this to zero."

Laughter

Mayhew Seavey: "It wouldn't be a good idea to design a set of rates, presumably will, might be in effect as long as the last set was, which was quite a few years, that doesn't produce any net income at all."

Jim Clark: "I don't mean this to be tangential so redirect me if you need to but I just wanted to once again step back and cause what we haven't talked about in any of this model and the reason I say its tangential is I know it's not suppose to be part of this model specifically but looking in the big picture and I'm just thinking of we're talking money in and money out, the one where the money is going out is for all (inaudible) employee's salary structure and so and every year you are giving raises and things of that nature and I'm wondering how those kinds of things are influenced or even taken into account by this kind of modeling or by the Commission I think I believe it was the last time we were here wasn't it a 3.5% raise."

Mr. Hiscock: "Something like that, 3.25 I believe."

Jim Clark: "And so I wonder in the City side (inaudible) because as we know the economy has been very tough that ah a lot of the sectors that those that use to see (inaudible) 3.5% that doesn't happen like it did because it can't for survival of cities, companies, and so I have to say, we weren't able to speak at that meeting but I was a little surprised that it seemed to me, that there was like and oh okay and don't get me wrong I want to take care of our people, the people that serve us are very important but I just wonder how much that gets taken into account, and that goes back to his question specifically in this model or is it something that doesn't have a lot of affect ah and then think about my comment for your future deliberations if you wouldn't mind."

Mayhew Seavey: "It does actually in a way factor weigh into this slide here which is the unbundled rate design and I'll talk about an over and then come back to your question I think, the idea behind unbundling the rates is to break out charges for different functions and so the tree functional charges that we have is the distribution charge, the transmission charge and a generation charge. The transmission and generation charges are passed through of expenses that are billed to SNEW by the Cooperative. The distribution charge which includes the customer service charge is everything else and so it's the distribution charge that recovers all the cost of salaries. Basically all the cost of owning, operating and maintaining the utility system, plus whatever debt income is earned all of that goes through the distribution charge. And one way that that this is beneficial is that it will allow you to compare your distribution charge which includes all of the salaries and other things with CL&P's distribution charge to see if in fact your operation is a cost effective operation, it gives you a yard stick affect to measure the performance of the utility."

Jim Delgreco: "And John this is where you said I believe 70% of."

Mr. Hiscock: "70% of it is transmission and generation."

Jim Delgreco: "So where we have control is 30%?"

Mr. Hiscock: "Right."

Jim Delgreco: "And could you look at with that 11¢ charge or is that 11¢ on 70¢?"

Mr. Hiscock: "11¢ is in the transmission and generation charge."

Jim Delgreco: "So it's 11¢ if I could here and then more or less 3¢ here?"

Mayhew Seavey: "Yeah, probably 4 in that ball park, I think you'll find I haven't done a direct comparison but I think that you'll find that the distribution, that SNEW's distribution charges are significantly lower than CL&P distribution charges."

Jim Delgreco: "And the reason why we're seeing what we're seeing is because this 70% is."

Mayhew Seavey: "That's exactly right, yes effectively CL&P a position of going out to the market every six months and takes a snap shot of where the market is in short-term."

Jim Clark: "It's odd that they would be more nimble than small."

Mr. Hiscock: "Considering the way it started out they were so un-nimble, that we were beating them to death on wholesale rates. Municipal utilities have always taken this attitude they want level stable rates and the Cooperative has a rate strategy that speaks to level long term rate structures, and when cost are high we look great and when cost are low we look bad, and we're now on the other side of that curb and we look like the dog."

Jim Clark: "So can I touch on that, a couple minutes ago we talked about is it time to start thinking about structures that would allow us to be more nimble?"

Mr. Hiscock: "The Cooperative has a meeting I think its next week or the week after, I'd have to look at my schedule of what we call the Risk Management Committee, and the Risk Management Committee has based on a meeting of the and off site meeting of the Board where we spent a day in strategy we talked very specifically about whether or not we should change or strategy to mirror the investor own strategy and try to be under at all times or whether we should continue with levelized and be in the position when sometimes we look great and sometimes we look terrible, and it's not something that Members all agree on, because if you have a large industrial base where you have some very big customers who use a lot of power for their budgeting, marketing and business design they prefer level rates."

Jim Clark: "What's the time frame are we talking five years, what's your goal?"

Mr. Hiscock: "We're in about a, we're buying forward energy in the four to five year range, and we're now talking about maybe dropping as low as two."

Jim Clark: "Thank you."

Mr. Hiscock: The problem with that obviously with that is the rates will not be as level they are going to be more volatile."

Jim Clark: "Yes, but the world economy has been much more volatile, (inaudible) our National economy this for this time being (inaudible)."

Mr. Hiscock: "Yea, but you can't say for this time being, because if you're going to have a strategy that's buying four and five years out you're going to do that and you're caught by it, and if you're going to have a two year strategy you can't just flip back into a five year strategy and expect that it's going to be different."

Jim Clark: "No, no that's not saying in other word for the next ten or fifteen or twenty years you'd be on that cycle and you can see, how long have you been and this five year cycle look back and see that's how, you know what to do."

Mr. Hiscock: "And the reason we have so much cash is that cycle."

Jim Delgreco: "Mayhew, will you actually get into the numbers where we need, for the next year x amount of dollars to keep the rate at this level verses how much of this variable cash we have? Will you get into a comparison?"

Mayhew Seavey: "I haven't done a projection beyond the fiscal 12 year that we are looking at."

Jim Delgreco: "But will you get into just for fiscal 12, where you'll look at the 70% we can't touch? It's just out the window but we have this amount of money left over and how much more we need and where that money can come from in that 30% number? Will you get into a comparisons along those lines?"

Mayhew Seavey: "Well the extra money is not going \$1.75 million isn't going into to the 30% it's going to reduce the 70%."

Jim Delgreco: "I understand that and so, we can look at the whole number that \$5 million that was net revenue verse the money used to run the business right. Plus now it's another \$1.7 million right and so that \$1.7 million is going into the \$11 million for the purchase power right? And then we have this other number over here net revenue is anyone doing any evaluation of that additional that needs to go towards power generation coming from the net revenue? I'm not making myself clear."

Mayhew Seavey: "No sorry I'm not I don't follow."

Jim Delgreco: "To me we have three buckets of money, we have the money that has to go to the power generation, we have money that goes the operating, and then we have money we're going to try and borrow from some place, right."

Mayhew Seavey: "Okay."

Jim Delgreco: "So we know this money has to go toward the power generation, we know this money that we're going to borrow is also going to go toward the power generation, is anybody looking at that net revenue to ask to see if it can go towards that power generation money are you examining that in this."

Mayhew Seavey: "That money goes specifically to the operating expenses of the utility."

Jim Delgreco: "That's what I'm asking."

Mayhew Seavey: "You know when we calculate the rate of return essentially it's the revenues from the distribution charge minus all of the expenses of operating the utility and everything else is just flowing through. It's a past through of cost so if there's a 2.5% rate of return it all comes from the distribution charge."

Mr. Hiscock: "Maybe try this, if there's revenue on the distribution charge that exceeds the expenses for the distribution charge, it flows through the balance sheet as cash, so whether you take it from that bucket or you take it from cash it really comes from the same place."

Mayhew Seavey: "Alright, so the next task here was to simplify the class structure, the present rate have rate structure consistent of 7 major rate classifications, there's one

residential class that's actually a small discontinued one for residential that controlled water heating I think, I'm sort of ignoring that for now. Then there are six nonresidential rate classes in the current tier and we're going to reduce that to one residential and three commercial, we're going to eliminate two classes all together and fold a couple more three more into each other so we're going to eliminate, right now there's a separate municipal rate that applies all governmental entities state, federal, local it doesn't make sense that's no longer standard industry practice to have a separate rate for government entities so we are just going to move those customers into whichever is appropriate general service rate is for them and then all of the other, the nonresidential customers will fall into one of three classes a small, medium and a large and the small general service you can see you can read as easily as I can they have a maximum demand of less than 100kw, large is over 350, and medium is everyone in between. This is pretty consistent with classifications that CL&P uses and it's consistent also with the types of customers that fall into those classes, now we're going to talk about the four classes that we are going to have, and what happens to them. The residential rate we're going to keep essentially the same structure right now we had an increases block rate this a rate structure that's become very trendy the last few years for encouraging conservation the price goes up the more you use the average price goes up so essentially service as possibly as a disincentive for using excessive amount of electricity. We're increasing the customer service charge a little bit from \$7.41 to \$9.00 a month CL&P I know charges \$16.00 a month for a customer service charge, I think that a little extreme and can cause some problems for small users of electricity which tend to be elderly or living in smaller places so \$16.00 is a big charge for someone using 200 or 300 kilowatt hours a month so we are going to keep that customer service charge relatively low, the energy charge itself hardly increases at all its essentially less than 1/10¢ a kWh the average bill is will be about an increase of 1% and that leaves them about 12.5% lower than CL&P.

Jim Clark: "When you say average (inaudible) that's all rate classes? Do you have that broken down by?"

Mayhew Seavey: "There a table on page 10 that breaks out the usage by customer size monthly kWh usage."

Jim Clark: "I don't know how much (inaudible)."

Mr. Hiscock: "Average 632 there about."

Mayhew Seavey: "The median is 472 and the mean or average is 632 residential."

Jim Delgreco: "So in other words (inaudible) this charge I'm an average user in my house (inaudible) kilowatt usage."

Mr. Hiscock: "Kilowatt hours."

Mayhew Seavey: "Average is a complicated thing, average in this case means the total kilowatt hours used by all customers divided by the total number of customers. That's a little bit misleading because you have some very large residential customers, you have residential customers using 3 or 4,000 kWh a month which really throws the average off. So I prefer to use the median, the median number there is half of the customers, half of the residential customers use less than that half of them use more than that, and you can see these a big difference between the median and the average in this case and it's still not by those few really large customers, so this."

Jim Delgreco: "So with this you're saying is that is this, the proposed increase for the median person is 1.6%?"

Mayhew Seavey: "That's right, and for the average person its 1.1%."

Jim Delgreco: "So does anybody know an average? What do I pay on an average month for my account?"

Mayhew Seavey: "It shows you that in the second column that median customer goes from \$70.74 to \$71.85 an increase of a dollar."

Jim Clark: "It's interesting but why would the people who use more the price go down than people who use less Grandma?"

Mayhew Seavey: "That's entirely a function of the small increase in the customer service charge because it's a much larger piece of that small bill."

Jim Clark: "Cause grandma is not using much electricity but her percentage wise she getting (inaudible)."

Mayhew Seavey: "Yeah, percentage wise it's still only a dollar a month, if you look at its only 7.8% is a \$1.38 a month, so it's a large percent of a small number."

Jim Delgreco: "And this is the increase with all of the money we're trying to take out of those other places?"

Mr. Hiscock: "That's with the \$1.75 million essential subsidy for other places."

Jim Delgreco: "Didn't you also take some money out of cash too?"

Mr. Hiscock: "It's a combination of, the Commission hasn't decided whether it's going to come out of cash or whether it going to come out Economic Development Fund, whether it's going to come a little bit more out of the Municipal Trust, that's a decision that has yet to be made, but the bottom line is that the \$1.75 million is what cause this, and if we don't take out 1.75 that number is going.."

Jim Delgreco: “And what we are then hoping that in two years, you then take advantage of that rate structure coming down where we won’t have to take the money out anymore but this rate won’t go up.

Mr. Hiscock: “Correct, that’s the goal.”

Jim Clark: “Question, have we ever having a tier customer service charge by class.”

Mayhew Seavey: “Well it is tiered by class, the residential customer service charge is much small than the commercial.”

Jim Clark: “(Inaudible) is a cross all residential.”

Mayhew Seavey: “Yes.”

Jim Clark: “And how many residential only one class count for residential?”

Mayhew Seavey: “Only one class (Inaudible) Yes quite a bit higher, So it (inaudible) shows how the rate has been restructured at the present rate on the left the proposed on the right, we’re adding the transmission charge and we’re changing the purchase power adjustment into the generation charge, which means essentially that we are taking all of the purchase power cost out of the present energy charge and putting it into a separate charge. That’s the unbundling that takes place is that right now that energy charge includes all of the distribution cost, some of the purchase power cost, some of the transmission cost and then there is an adjustment, that purchase power adjustment that just is used make, to balance the revenues. It’s not the most transparent thing in the world and it has always bothered customers and it’s a good idea to get rid of it.”

Jim Anderson: The small number of customers that are on that other rate (inaudible), whoever they are (inaudible).”

Mayhew Seavey: “Yes.”

Jim Anderson: “Will they be notified also of it’s probably (inaudible) comparison?”

Mr. Hiscock: “The hot water heater controlled rate is no different than 10, so at this point we have essentially eliminated that, and that was a significant time ago Jim.”

Mayhew Seavey: “So let’s move on there’s a graph there that shows how the present rate compares to the proposed rate you see there is very little difference between the present and the proposed and CL& P and the black line there is higher at all levels, so this rate is significantly lower than CL&P’s.”

Jim Delgreco: "Do you know where, okay we compare to CL& P but (inaudible) do you know how (inaudible) bad (inaudible) how expensive they are. Can you tell us how we compare to anybody else in say New England or New York?"

Mayhew Seavey: "I haven't looked at that, it's not that, it's not that hard to get that information and do the comparisons. I don't think that in terms of private utilities that CL &P is particularly out of line from what I've seen in other parts of New England at least. The Northeast has never been a low cost energy part of the world CL&P has a large enough service territory that it covers a pretty representative area, urban areas (inaudible), the suburban areas, there's rural areas, so."

Jim Clark: "I guess the question is, are they the best people we should?"

Mayhew Seavey: "Are they the benchmark that you want?"

Jim Clark: "We should be comparing ourselves to or is there is some other?"

Mayhew Seavey: "UI."

Jim Clark: "Like in school systems you have (inaudible) you look for districts that are similar because otherwise the numbers are meaningless and that's a for profit company, and the first think I think of , they better be significantly higher because otherwise it we're probably be mismanaging."

Mr. Hiscock: "You always do trade-off the tax and the profit against the economy scale and that's the difference, that's a big difference. Economy scale is a big thing when you deal with a company that has 6,000 customers versus one that has a million or more."

Jim Clark: (inaudible) "Someone that has more."

Mayhew Seavey: "It might make sense to compare to the other."

Jim Anderson: "Third District, whoever they might be."

Mayhew Seavey: "The other CMEEC members since they all have exactly the same purchase power cost, but then again there's a huge variance in scale there between Groton and Jewett City and you."

Jim Clark: "That's why I'm saying you guys would know better who is more like us?"

Mr. Hiscock: "An example of where it becomes difficult is in the case of say Norwich one that I know a little bit about, Norwich's rates are higher than ours, Norwich has had a tremendous self imposed disadvantage, because 10% of their revenue goes to city government. They take 10% of the utility bill and roll it into City government, so when

you have those kinds of variability's from system to system who do things different sometimes it can cause some (inaudible) that don't make a lot of sense."

Jim Delgreco: "So if someone UI another person mentioned Third Taxing District do they have (inaudible) utility too, same thing?"

Mr. Hiscock: "Yeah."

Jim Delgreco: "Do we have those comparisons or no?"

Mayhew Seavey: "The information is available, it would simply be a matter of putting them into the model and doing a comparison."

Jim Clark: "Another thing interesting about those comparisons, we might be able to do (inaudible) it's not just about cost, some of these we can take cost out of, we need to start to see the full operations. Start to see you know the actual operational side of the business and how efficient or the areas that approve in efficiency, it seems to me it might not be looked at, oh that the cost of this."

Jim Delgreco: "How much is that going to cost us, Mayhew for you to do?"

Laughter

Mr. Hiscock: "I could give you a real (inaudible) if you like."

Jim Delgreco: "If you could."

Mr. Hiscock: "Out of the Cooperative Wallingford is the lowest, and you 'll find that I believe Jewett City is the highest along with Norwich."

Jim Clark: "Okay and Wallingford is the largest of our customer base and Jewett is the smallest."

Mr. Hiscock: "Wallingford is very similar in size to Groton, but they are very different organizations, Wallingford has way more customers than Groton but their energy usage is almost identical cause Groton has some huge customers, related to the sub base and that's where, I know your desire to start comparing to others but when you look at the customer base and see how different they are you really get into some really tough analysis."

Mayhew Seavey: "Yeah there are big variations in density the percent of the system that's underground verse over head."

Jim Delgreco: "Then how do we find the right one?"

Jim Clark: "It sound like you're almost saying let's not bother to compare."

Mr. Hiscock: "No that's not what I'm saying."

Jim Delgreco: "But are you saying the one you are because that makes the most sense?"

Mayhew Seavey: "Well it's essentially the one that your customers are likely to compare you to, because it's all around you, it's the local competitor."

Jim Clark: "In terms of the bottom line price we're paying but in terms of whole operational side their obviously not the ones to compare ourselves to, but it's absurd to compare ourselves operationally to CL&P, they're totally different."

Jim Delgreco: "What about comparing us to East Norwalk? Is that even a worthwhile comparison?"

Mr. Hiscock: "You could, I don't know what it'll get you, there's material difference in service territory a huge difference in size mostly the customers in the way that they are serviced its really, when you get in smaller utilities and trying to compare smaller utilities to smaller utilities it doesn't take much variance to drive prices one way or the other, that the real problem we all run into, you know if you're dealing with CL&P compared to national grid, you know that's interesting."

Jim Clark: "Well I think what I'm kind if getting at here is that, I not saying don't compare to CL&P in terms of all the actual energy stuff, I think that's fine, but if you want to start looking at the more operational side (inaudible) it seems like good (inaudible) you would want to look at that side of things as well."

Mr. Hiscock: "Sure."

Jim Clark: "So how do we find?"

Mr. Hiscock: "We could spend a lot of money and benchmark."

Jim Clark: "(Inaudible) we're spending a fair amount of time figuring out our cost (inaudible)."

Mr. Hiscock: "You certainly could spend a lot of money and benchmark, and do some detail benchmark analysis against all of the other utilities in New England, you can look at size, you can look at density, you're gonna look at customer base, you're going to look at urban areas verse rural areas."

Jim Clark: "Well I'm not talking about."

Mr. Hiscock: "What are you talking about? I'm confused Jim."

Jim Clark: "Well I'm not talking about doing the study for the study sake, that sounds like a busy work study, lets, sorry I wanna find who is most like us operationally and let's just talk to them and see where there efficiency come at."

Attendee: " I have to say he's right because your whole proposal here is talking about CL&P and but on the other hand you're saying CL&P economy scale is way bigger so why use your whole presentation is based on CL&P, why not use something that more comparable to SNEW, I think they have a valid point."

Mayhew Seavey: "There's really two questions one is what is designing in actually designing the rates and setting the level of the rates so they are acceptable to the customers and the other is the question I think you are asking which is are the expenses we are occurring in operating system appropriate for a system of this size."

Jim Clark: "Basically the 70% number I'm okay with them, that whole 70% thing to the CL&P because that kind of the (inaudible) what I'm saying the 30% which we don't really look at too much is time to start looking at that a little more closely, and too because that's part of what we do and you know."

Jim Delgreco: "It's the only one we have control over."

Jim Clark: "It's the only one we have control over, so let's look at that and see you know cause you are being very vigilant I'm impressed the level of detail I mean that's gone into this and the time and expertise is obvious there's a lot here, and so know that (inaudible) to me that other side I'd love to see that kind of you know the detention, that would help us get our net number up a little bit or at least not have to be quite so you know, wondering what cause we don't know."

Mr. Hiscock: "There's are a really good reason for using CL&P and you got to think it from this very long term philosophical view point and we've said it at the Commission level a lot, if can't be lower than CL&P there's virtually no reason to for SNEW to exist. That's a real tough bottom line you need to think about, if can't and I don't mean day to day, but over the long haul if it cost you more than the investor owned utility that surrounds you to do business, then you don't need to exist."

Jim Delgreco: "And right now we are approaching that level?"

Mr. Hiscock: "We are for the very short term frame, absolutely."

Attendee: "You have to keep in mind that we are taking through good stewardship is there from the past, but you really compare us with anybody when you think that money, we're playing a card that you can only play five times and then that fund is gone."

Mr. Hiscock: "Correct."

Attendee: "So in reality we are distorting the whole comparison and it has no meaning if you're taking money that it's a onetime kind of shot, I understand that you're going to do this for a year or two until you can negotiate better rates."

Mr. Hiscock: "Until the gas prices change."

Jim Delgreco: "And I agree with you 100% because you don't want to rob from Peter to pay Paul but in this situation, correct me if I'm wrong this money was basically kind of set aside as a rainy day fund to basically use in times when."

Mr. Hiscock: "Yep."

Jim Delgreco: "Like we are talking about now to get over this hump to keep rates somewhat under control give some relief and then hopefully build it back up again."

Mayhew Seavey: "Exactly the point I want to make which is that rate stabilization funds are used by a lot of utilities and with the idea that they will be built up and never my utility clients municipal utility clients will have policy to maintain a rate stabilization funds between x and y million dollars and when rates fall, when the fund reaches that level it gets drawn down and then it gets built back up again and using competitive measures, that's a perfectly legitimate use for rate stabilization funds, because that's what they are for. So lets see we'll just go quickly through the commercial rates the present small business general service rate 11, which applies to customer less than 1,000 kWh a month that's really you get lots of residential customers bigger than that, this customer class is just going to be eliminated and will be moved in together with rate 12, which is another small commercial class, because of the way the rate are structured these customer are going to have an 11% reduction that's a very small amount of revenue cause there's not a lot of revenue in this class. These are the changes these customer will go from not having a demand and a demand charge to having a demand charge but the demand charge only applies to demand over 2kW, and most of the customer this size don't have a demand over 2kW."

Jim Clark: "So a demand charge is when they exceed a certain usage this is the charge that is incurred? That's the definition?"

Mayhew Seavey: "The demand charge is the demand is the maximum rate at which they use electricity in the month, during the month so you know if you view that usage as a graph that goes like this the highest in any usage in any hour is you maximum demand and the reason that we bill demand for customer like this is you really should bill demand for every customer because."

Jim Clark: "I'm not sure I agree with that but go ahead."

Mayhew Seavey: "Most of your distribution cost are entirely tied to poles and wires, transformers and substations, and those are all sized so to meet the maximum demand on them, if all your customers all your customer had a huge demand in one hour you would have a enormously over billed system most of the time, so you really want to recover cost on the bases of the maximum demand it's not a practical matter for residential customers to do that it never has been because demand meters are expensive and also residential customers have a lot more trouble understanding and dealing with a demand rate."

Jim Clark: "Count me as one of those."

Mayhew Seavey: "Than larger customers do, exactly I don't know very many light Commission member who could tell you what a demand was."

Jim Clark: "When I, as I was going through before and (inaudible) the whole demand thing that issue comes up, it seems we have such metering now that we can charge people what they use. From what you were saying last month it was causing me concern, let's say I have I do something I have a party whatever and I use a lot of power this one day and then that's going to affect my rate for the month if I understood you correctly, even if I was gone, even if I gave a big party and I was gone for three weeks my bills going to be huge because I had that party."

Mayhew Seavey: "That's right."

Jim Clark: "That one day and left, that seems like not very equitable so you have the ability to meter and know exactly what we used, I'll pay it so tell me why that's wrong?"

Mayhew Seavey: "Well the example that you give is probably not the best example, that's a onetime thing."

Jim Clark: "It's my example and I'm sticking with it."

Laughter

Mayhew Seavey: "If you have a customer whose got a arc weld around his garage and he uses it four or five times a month the transformer out at the street needs to be able to provide that anytime he uses it, so that's a more typical example of where a demand charge would recover the cost of serving that customer."

Jim Clark: "See I still don't know if I agree with that, in even the theory of it, it like I understand, if I understand correctly and (inaudible) you need to find a way to recapture the cost of your infrastructure."

Mayhew Seavey: "Right"

Jim Clark: "So you need to find a way to recapture the cost of billing this infrastructure and infrastructure each municipality has a different magnitude infrastructure so in (inaudible) to do this is worthy (inaudible) of our community and so you're saying you're going to recapture those the cost through a demand charge and I'm not sure that I agree with that mythology."

Mayhew Seavey: "Utility rate making is always has been a place where a lot of cross subsidizations takes place, you agree to charge all residential customer the same 13¢ kWh even though you know it's costing you more to serve some of them than others and so part of that is a social contract that you agree to as a issue of policy as a policy making board and part of it just frankly in the past has been a matter of practicality, you didn't have the ability to actually charge people on a pure cost causation bases, you just didn't have the information, you didn't have the equipment and."

Jim Clark: "That's an important point and that's an important factor in the past, we didn't always have the technology even to go there (inaudible)."

Mayhew Seavey: "And so the question is now that you have the ability, should you do it? That becomes a (inaudible)."

Jim Clark: "I might just ask that question rather than use the old model even though it works, that a concern I have."

Mr. Hiscock: "There's a thing called the real time rate and the real time rate is the cost of power at any given point and time out of the system and the supplier and power is extraordinarily cheap late at night in the spring and fall when nobody is using anything it all comes out the millstone and comes out very, very cheap and as you bring on more expensive generation units it drives the cost of power upward, you get into the summer time and all of the old inefficient plants on hot days are running and the cost to produce the power on those hourly or instantaneous increments are very high examples, you can buy power at \$40 a megawatt hour times when there's not much use and it can be driven to \$1,000 or \$2,000 megawatt hour during peak time periods, now where I'm going to go with this is if we charge every customer according to the hourly market rate for power, can you imagine trying to explain to a customer their bill? Could you imagine the difficulty of rendering of a bill that has a different rate every hour?"

Jim Clark: "I'm confused again I understand what you are saying, I'm confused because I thought we just bought power way in advance and so we don't have to worry about any of that stuff."

Mr. Hiscock: "No I'm talking about the market rate of power and that true cost, we buy it way in advance to level it off there is an option you could go to that kind of billing but nobody one understand it, there would be chaos because the homeowner would get a bill for \$22 in March and get a bill for \$795 for July, so there's always these social things that Mayhew is talking about to at least make it bearable for everybody."

Mayhew Seavey: “Real time pricing is being offered today and its part of the emphasis behind smart metering and smart grid is that if you have the ability to pass that real time price on the customers some can use that information to control their usage and that will help avoid peak loads, because if people are able to controls load then the price gets really high then it’ll come down but right now typical residential customer can’t do anything about it, so what the point of giving them the price? And that why you will continue for the time being to socialize those cost across all customer and class.”

Jim Anderson: “Just shift the focus, customer service and you expand on that a little bit was it rounded up noticing going forward and all the rate on 10 and up it a whole number.”

Mayhew Seavey: “Yes, I can’t answer why it wasn’t a whole number t begin with.”

Jim Anderson: “I’m not answering that either (inaudible).”

Mayhew Seavey: ‘Essentially in choosing a number to use for the customer service charge I’m essentially starting with where it is now I’m looking at what the cost of service model says it be based SNEW’s actual cost and the cost that go into the customer service charge are various expenses that you have for metering and billing for customer accounts, anything that related to sending out a bill which doesn’t very at all by how much electricity you use. So there cost that the model puts out so I’m looking for a number that’s somewhere between where it is now and where it should be, cause if we went all the way to what it actually cost to send out that bill the impact on that customer would be probably unacceptable, or where CL&P’s is, or CL&P I think charges \$38 for a customer in this class so we are sort of moving towards cost of service while trying to avoid disruption to the customers. You see the number get a lot bigger when you get to 12 and to 13 rate and 19.”

Attendee: “Why is that, why is the distribution and demand what does 2kW stand for? Is it kilowatt hours?”

Mayhew Seavey: “Its kilowatts, the demand.”

Attendee: “How many kilowatt hours make a kilowatt?”

Mayhew Seavey: “Well how many, it goes the other way around one kilowatt for a hundred hours gives you a hundred kilowatt hours. Your meter measures kilowatt hours but if have the new meters that would give you the hourly, it could give you essentially what are kilowatt hours per hour which if you divide the hours out is kilowatts. So it’s essentially it’s an instantaneous usage rather than usage over time.”

Attendee: “Okay, thanks.”

Mayhew Seavey: "Historically CL&P has charged for small customers has basically given the first two kilowatts away and sort of including that in the customer service charge, as a way of not penalizing very small commercial customers, who tend to end up with very high cost for kilowatt hours. So a little over 1,000 customers and it's as such a representative of 35% of the kilowatt hours sold, so about 1/3 of all of your sales will be in this small commercial class. The demand charge is going to increase the energy is going to decrease, this means that some customer will see more of a decrease than others. The average customer is looking at a 4% decrease in this class, some of them might actually increase if they have relatively high demands compared to how many kilowatt hours they're using, if they have a big demand and not using very many hours in the month they're going to pay a higher demand charge, they're not going to use as many kilowatt hours in the month. You know it's 1% higher than CL&P rate 30 on average but that's an insignificant difference. Right now in all of the commercial classes there's a very complicated block energy rate structure, the first 200 kilowatt hours per kilowatt is charged at one rate the next 200 kilowatt hours is based at another rate we're eliminating that it's going to be a flat charge for all kilowatt hours, we think that will make it easier for the customer to understand and it's also consistent with increasing the demand charge because when you have that kind of block structure you've essentially built a certain demand into the kilowatt hour charge. It's a very old fashion rate structure that's in there now it's actually a rate structure that utilities use to use before they had demand charges, but you just had both of them in there, so we're just going to wing that out and make that a single demand energy charge easier for the customer to understand."

Mr. Hiscock: "You needed to be a fairly sophisticated customer to understand that rate structure it was very difficult and customer service agents couldn't possibly explain it. It's quite a difficult thing to understand, it takes quite a bit an example (inaudible) it was very difficult to understand this is much simpler."

Mayhew Seavey: "Yes?"

Jim Anderson: "I've gotta leave, two simple questions, and I'm surprised one wasn't asked yet, the 10% discount that not going to be eliminated?"

Mayhew Seavey: "It's not going to be eliminated, that's right."

Jim Anderson: "And then a request, and I'll direct this to Kevin the bottom part of the tear-off (inaudible) can it have the actual number of the actual line there's two numbers now the discount and the real rate, if that can be transferred to the lower part that the customer keeps? Recordkeeping wise or whatever that would be a help."

Kevin Barber: "Yeah."

Jim Delgreco: "The residential customer compared to CL&P, is going to be 12½ % lower."

Mayhew Seavey: "Yes."

Jim Delgreco: "This one is going to be 1% higher."

Mayhew Seavey: "Yes."

Jim Delgreco: "Is that because CL&P charges more for this (inaudible) one?"

Mayhew Seavey: "Yeah, basically because CL&P subsidizes residential customers differently than SNEW does, and you'll see there's a table at the very end that has all of them compared to each other and you can how it falls out more easily, but yes that's exactly right. So the new medium general service rate 13 more than 100 kW or less than 350, this is a new class that we are creating between the small and the large it's going to be 13 customers in this class and I think it about 10 or 15% of the total usage, 6 of these are former municipal customer, and 7 from the current 13, 16 and 17 which are all the intermediate general service, the customer service charge is \$250.00 it's seems like a big number but for each one of the customers it's a fraction of 1% of the entire bill, because these are very large customers, their monthly bill is \$10,000 and so the \$250 customer charge is. You have a question?"

Jim Clark: "So when you're spending \$10,000 a month on power."

Mayhew Seavey: "Typically these customers have more expensive meters, it's a more complicated bill to send out, they got bigger service wires and more equipment is devoted to serving them so it make sense to charge a higher customer service charge. The demand charge is about the same actually for all these commercial rates it's either 11 or \$12, and these customers will see an average decrease of 3% and it'll be 1.5% roughly lower than comparable CL&P rate. The last rate is the large general service, this is actually the new rate there's actually only 5 customers in here but they're 15% of the total sales, their spread across three different customer classes which basically differ only in, whether they own the transformer or not, whether they are being metered and primary voltage or secondary voltage , so we're just going to throw them all into one class and have a primary metering discount and a transformer ownership credit to take those differences into account so you don't have to have three different rates."

Jim Clark: "Have you spoken to these 5 customers about this?"

Mr. Hiscock: "We have not, that will occur once we get closer to adopting something."

Jim Clark: "The 5 customers that make up 15% of your total sales, you don't want to piss them off."

Laughter

Mayhew Seavey: "Their looking at a 2% decrease their going to be lower than CL&P so there's not a lot."

Jim Delgreco: "Their going to happy is that what you're telling me?"

Inaudible

Mayhew Seavey: "We'll happy not unhappy, happy and electric bill are not two thing that tend to go together. So finally this is the summary and it just basically summarizes what we just talked about in terms of the rate change, the comparison with CL&P, what we didn't talk about in each of those is the rate of return and you could see the overall is 2.5% compared to the -3% under the current rates, that spread now between the highest and the lowest is 23% points instead of the 32% points so we've moved that gap about 1/3 of the way so we're much more towards what I typically see in a municipal utility cost of service and all the commercial are roughly in the same ballpark the medium general is a little bit lower for some reason in terms of the rate of return but not enough that you get worried about it."

Jim Delgreco: "So what the likely hood of this scenario actually playing out? In other words are there variable risk cost for that 2.5% rate of return won't happen?"

Mayhew Seavey: "The main factors that will affect that are the level of sales, because basically you know your expenses tend to be, if you figure the expenses of operating tend to be clearly fixed and so if you have a really strong sales years you're gonna bring in more revenue than you expected so you gonna have and the expenses are going to be roughly the same, so you'll have more net income. On the other side if sales are on the low side you can fall short."

Jim Delgreco: "We'll for example we've had a fairly mild winter."

Mr. Hiscock: "Sales are way down."

Jim Delgreco: "Way down."

Mr. Hiscock: "Way down."

Jim Delgreco: "And let's say we have a fairly mild when I say mild not hot summer what happens to the number that 2.5% goes away?"

Mr. Hiscock: "Yes."

Mayhew Seavey: "Yes."

Jim Delgreco: "And how bad could it get? And I know that's a tough question, cause who knows? Are we talking about a plus or minus 5%? What's the risk factor there?"

Mayhew Seavey: "That's a good question you know it would be that hard to run a sensitivity analysis through the model, and let you know it a pretty simple spreadsheet model."

Jim Delgreco: "It seems to me with the water situation if rains a lot like it did last summer (inaudible) water, now all of sudden we're doing what we're suppose to be doing saving water, saving energy."

Mr. Hiscock: "And you pay more per unit, yes, that's nature of any utility because we have such huge amounts of money in fixed investments. "

Jim Delgreco: "So I would like to hear what the risk factor is there, because I think what's going on in the environment right now we have a lot of these risk factors and that that's going to mean because it could take all of our efforts to try and move money around and save this and that and just literally throw it right out the window."

Mr. Hiscock: "The 70% varies with consumption that's clear, you know, because that's the power that we pay for and that's the power that you use so that portion of the bill tracks fairly closely, (inaudible) there are a few things like demand in the transmission charge that gets really complex, but that tracks close. The place that you run into the issue is on the distribution charge because that's what you use to run the company and that's what provides you the rate in return, if that one drops down that where the bigger risk is."

Jim Delgreco: "Will one offset the other in others words we're not, because we're not using a lot of energy that 70% we will say money there?"

Mr. Hiscock: "No."

Mayhew Seavey: I'm guessing that, I'm remembering the numbers off the top of my head, I'm guessing that a 10% reduction in sale which would be pretty extreme, would wipe that 2.5% out to 0, it wouldn't make it go negative, but it would (inaudible) down to zero."

Jim Delgreco: "So basically what you are saying is that 10% which you almost never see, is not that severe."

Mr. Hiscock: "It so severe that it would cause a severe economic immediate crisis that would not happen."

Mayhew Seavey: "Yeah, because if you think about that total net income number of (inaudible) in earlier charts so 10% of that is what you would lose, you would lose a half of a million dollars in revenue and that is about what the net income is in a scenario so."

Jim Delgreco: “The first time we heard this, I don’t know I was really scared I walked out of here like oh my god here we go again 25% on this one, and everybody is hitting me up for more money, it seems like you’ve got this, the rate increase more under control or did I just (inaudible) the last time I was here?”

Mr. Hiscock: “We changed what we were doing in the process, we dropped the rate of return, we subsidized with cash which you know we didn’t talk about originally, and I think there was this very specific realization on our part that you simply can’t be that much higher than the surrounding utility and not take a tremendous amount of abuse for that. I mean there is a reality there the Commission has to face, you know you just put that number at 5% and you took the subsidy out the numbers would be and unacceptable to the Commission they looked right at me and said this is not going to happen.”

Jim Delgreco: “Good, thank you Commission.”

Laughter

Jim Delgreco: “Well I want to thank you very nice presentation, and I think everyone for doing this because obviously the last time around when we (inaudible).”

Mayhew Seavey: “I’ll let you have your chair back”. [to Mr. Hiscock]

Laughter

Mr. Hiscock: “I think at this point the Commission would like to hear any comments you have I know that you’ve commented through this whole thing.”

Jim Delgreco: “If there was any takeaway we want to thank you for going through this process because it was great seeing the notice in our statement that says something is happening (inaudible) I like the little article in the newspaper yesterday that said you know this is happening so thank you for all the notice you’ve given to us to better informed, what I would like to take away that realistically not spending a lot of money, if there is somebody to examine that other piece, cause obviously to examine the 70% if there’s some way to examine that other piece I think Jim hit the nail on the head, are there other ways to do it things, I know in my own business always looking at the competition and see how they are doing something, and if we can compare or find someone, I don’t if this is possible apples to apples verse apples to watermelon that it might help look at those cost, and last but not least I know I know our business has had to have a lot of layoffs a lot of downsizing basically a lot of money taken out of employees pockets to help balance budgets, that when you do look at increases that you really look at them and almost say you can’t do it this year because of this is going on. I think the next time around when you guys vote on whether or not you should be getting that \$3,000 stipend that you get that we should look at reducing that 25% so that someone is the feeling the pain that we’re feeling coming from our perspective and not basically just continuing the process of rubber stamping, those would be the two things that I think you

should take one is to thank you for doing the communication and number two is to look at that 30% and see if there is anything we can do about it.”

Mr. Hiscock: “To date we’ve mostly been doing it through attrition and leaving positions vacant and simply not hiring. As people leave we are not replacing people in general.”

Jim Clark: “John, on the City side we are finding that is not enough, we’ve really had to look at the health, health cost, all the retirement stuff post, we had to really look at everything.”

Mr. Hiscock: “We’ve done things over the years.”

Jim Clark: “And it’s not fun because you know people work hard and need to be taken care of and its really, I feel bad that we have to look at those areas at it all frankly, I mean impartialities.

Mr. Hiscock: “Kind of one of the things we’ve done we changed to a HSA we eliminated for new hires medical benefits after retirement that all gone now and in fact about half of our employees are no longer covered and we still have a \$ 9.2 million liability for that, so we’ve done those kind of things obviously you can look at more.”

Jim Clark: “9.2 post employment for other for earlier?”

Mr. Hiscock: “For in, yeah.”

Jim Clark: “Those are the kinds of things that you don’t think about sometimes that really add up.”

Mr. Hiscock: “Big numbers, big numbers.”

Attendee: “I work for a small company have you taken every single folder out of you accounts payable and made sure you’re getting the best buy on what you buying? Because that is a nitpicky itty bitty job but you might be find you’re paying for something you don’t have any more, water coolers, candy dispensers, are you buying your tires in bulk? Can you get your tires from a better deal form somebody else? It’s a very time consuming nitpicky job, I mean everybody looks at the big picture but you would be surprised how much money could leak out on the small stuff, would you agree with me sir? But it is a nitpicky job but I know it really starts with the big stuff, and promise me you’re not running out to buy one box of paper for your printer someplace.”

Laughter

Mr. Hiscock: “No, no.”

Attendee: "Alright, I'm just telling you maybe you might find something like that, it might be something you use all the time here that you're not buying in bulk."

Mr. Hiscock: "For the most part we do that we competitively price everything, we get multiple prices."

Attendee: "We thought so too."

Mr. Hiscock: "Okay."

Attendee: "Until we sat down and looked at every single accounts payable that went out, didn't matter if it was under \$100 bucks we looked, you'll find a leak (inaudible)."

Mr. Hiscock: "Probably."

Jim Clark: "As long as it's not a gas leak right."

Laughter

Attendee: "If you a haven't done it yet you should, because that's what all the businesses have to do now."

Commissioner Ramirez: Through the Chair, folks personally and I say thank you to everyone that show up, I did believe and I truly believe and I still believe that this is a very healthy meeting, okay I always believe that when people express their concerns that show up and excepting what's going on, and you get through a whole process of (inaudible) process when you open your minds and see exactly what's going on it becomes more healthy and becomes very positive when you see what going on, okay. On behalf of the increase I do be believe that our employees work very hard, their going multiple jobs they were not doing before, John very briefly explained it we have cut quite a few people, and I tell you folks I personally have these employees and the way they work, they don't complain, they do the job sometimes with a smile with a little sad, and it doesn't matter if it zero degrees, below zero or above 100 those folks are out there, those that work inside they got a lot of work to do folks, so yes I do respect ideas and your concerns its very well taken but that increase I do believe they do deserve it. On pole employees and I definitely watch personally I like to see company run more efficiently and you folks including myself because I'm a customer also very concerning what's going on here and I do believe that John and everyone in this Company including our Commissioners have done so far the best we can (inaudible) without you the Company would not exist, we appreciate it very much and I'm very pleased for you to respond this to this (inaudible) meeting, thank you, and please don't just feel free to express what is bothering you so we all learn so everything can be (inaudible) open for improvement, you know, thank you."

Mr. Hiscock: "If we're done you need to officially adjourn."

Commissioner Mann: "Motion to adjourn."

Commissioner Geake: "I second it."

Adjournment

The meeting adjourned at 8:56 p.m.

Attest:

Gwendolyn Gonzalez
Asst. District Clerk