SECOND TAXING DISTRICT COMMISSIONERS
Regular Meeting
January 18, 2011

Present:	Mary E. Burgess	Chairperson
	Al Ayme	Vice Chairperson
	Maria Borges-Lopez	
	Mary A. Geake	
	Sherelle Harris	
	Mary Mann	
	Cesar A. Ramirez	
Also Present:	John M. Hiscock	General Manager
	Candace Fox	District Clerk
Public Present:	None	

Call To Order

Chairperson Mary E. Burgess called the Regular Meeting of the Second Taxing District Commissioners to order at 7:00 p.m. on Tuesday, January 18, 2011. The meeting was held at South Norwalk Electric and Water, One State Street, South Norwalk, Connecticut.

Acceptance of the Minutes

Commissioner Burgess: "I will call the regular meeting of the Second Taxing District of the City of Norwalk to order Tuesday, January 18, 2011 at 7:00 p.m."

Commissioner Ayme: "Madam Chair?"

Commissioner Burgess: "Yes [acknowledging Commissioner Ayme]?"

Commissioner Ayme: "If I may, before we get to the business at hand I would like to request a moment of silence for the people who lost their lives in Arizona recently."

Commissioner Burgess: "Okay."

Commissioners Ayme: "If I may."

[Moment of Silence]

Commissioner Ayme: "Thank you."

Commissioner Burgess: "Alright. Thank you."

Commissioner Ayme: "Thank you."

Commissioner Burgess: "Okay, I need a motion for acceptance of the minutes."

Commissioner Geake: "I make a motion that we accept the minutes of the December 21st meeting."

Commissioner Harris: "I second it."

Commissioner Burgess: "Any discussion?"

[No remarks]

Commissioner Burgess: "All in favor?"

Commissioners simultaneously: "Aye."

Commissioner Burgess: "Opposed?"

[No opposed]

Commissioner Burgess: "Abstentions?"

[No abstentions]

Commissioner Geake made a motion to accept the minutes of the regular meeting of December 21, 2010. Commissioner Harris seconded and the motion passed with all seven Commissioners present voting in favor and none opposed.

CONSENT AGENDA

<u>Electric Write Offs – October 1, 2010 thru December 31, 2010</u>

Commissioner Burgess: "Okay, and now a motion to approve the consent agenda."

Commissioner Ayme: "So moved."

Commissioner Ramirez: "A motion to… second."

Commissioner Burgess: "Okay, all in favor?"

Commissioners simultaneously: "Aye."

Commissioner Burgess: "Opposed?"

[No opposed]

Commissioner Ayme made a motion to approve the consent agenda, Electric Write Offs – October 1, 2010 thru December 31, 2010. Commissioner Ramirez seconded and the motion passed with all seven Commissioners present voting in favor and none opposed.

Commissioner Burgess: "Okay, item four."

REGULAR AGENDA

Electric Rate PPA Change - Recommendation

Commissioner Burgess: “Mr. Hiscock?”

Mr. Hiscock: “Okay, the spreadsheets that were included in your board book under tab four have been replaced with the set that we handed out this evening. The only change in those spreadsheets are we made them a little easier to read, we color coded some things, we put some labels on so that we could discuss them tonight and make it a little bit easier for all of us. We would have had it in the board book this way but we kind of got busy. We had a day off last Wednesday due to the weather, so we didn’t quite catch up and get everything done we should have gotten done. Every January, or at least the recent January’s, the last several years, we have been modifying the PPA, which is the Purchased Power Adjustment. The Purchased Power Adjustment is an adjustment in our rate structure that allows us to change the price of electricity depending on our wholesale purchases from the cooperative. They are not considered by law to be rate increases or decreases, because it’s only the Purchased Power Adjustment that we’re changing. So we’re not changing the rates in any way, and we haven’t when we’ve changed this. The last time we changed the rates was in the early 2000 and… quite frankly I don’t remember what year, probably 2003-2004, somewhere in that range. Probably the best place to start would be to look at the sheet in your board book that looks like this, the one with the red on it. We all know red is not a good thing to have on a spreadsheet, since its negative.”

Commissioner Ayme: “Does it have a page number?”

Mr. Hiscock: “Go to tab four, the second page after tab four.”

Commissioner Ayme: “Oh, the second page.”

Mr. Hiscock: “I’m sorry.”

Commissioner Ayme: “Oh, okay, thank you.”

Mr. Hiscock: “This is the Electric Rate Stabilization Fund balance. The Rate Stabilization is a pool of money that we use to do exactly what it says, stabilize rates and leave them level over the year, because if we didn’t do this the rates would go up and down on a monthly basis, and that’s a difficulty. Customers don’t like it. We don’t like it. It’s very hard to explain to a customer that their bill one month was $100 and the next month it was $130 because it happened to be a timeframe when power was expensive. Usually it’s expensive July, August, September; sometimes December, January, and February. So here’s an historical representation of the numbers for the years 2004 through 2010. I will tell you that if you look at 2010 under the December column, which is the last column, it shows $42,488. That is an estimate actually, because we won’t have the actual number until we get the next bill from the coop, but it’s very close. It’s not going to vary by more than a couple of thousand dollars. As you can see we started in 2004, in October, with $167,934 in the Rate Stabilization Fund. Now that’s an artificial number because we took all of the money that was in the Rate Stabilization Fund originally, which… and divided it into two segments, one for rate stabilization, and the other is the Competitive Municipal Trust to offset our bond liability. So there’s another thing that appears out there, 5 million, approximately $5 million that we’re going to talk about a few minutes from now. As you can see it’s varied up and down. The deepest hole, the most negative, is September… October of 2006. We made some adjustments to the PPA. We did some over-adjustment. We had some volatile electric prices at that point in time. You can also see that we got up to a high of $500… $1,590… nope, February of 2008 of $1.6 million, and it declined during the year because we made some very specific decisions that year, and we're now through the 2010 time frame at $42,488 estimated. Okay, what did we do? We changed the PPA last January. We raised it, and I think you can see that in the narrative. So how do we deal with this? Well, we take the historical numbers as you can see, and then we take the budget from CMEEC which is on the next page, and it's a nice color document in the CMEEC budget but when you copy it, it doesn't look so good. And that's the page that's "1A – Summary Power Costs 6 Systems". Go half way across the page and you see "SNEW", and you run down the page and it shows you all of the things that make up our bill. There are two columns. There's one, dollars, total dollars; and the other is dollars per megawatt hour, and that's the thing that we focus on. If you go to the total, the bottom number, in SNEW's dollar per megawatt hour, you will see $110.76. That is the CMEEC estimate of what we are going to be billed for next year, or the current year, in dollars per megawatt hour. Divide that by 1,000 and you come out with $0.11 per kilowatt hour; and we'll speak in a minute of why that's important. So this information here on page A1 is used to create the table on the prior page. Halfway down the page it says current PPA at $0.0480 per kilowatt with a CMEEC billing rate, and the next line is important, or the next part of the heading is important, at a billing rate of $0.11 per kilowatt hour. So we get billed by CMEEC $0.11 per kilowatt hour, which is very similar to the number we just talked about on the next page, and we run out the budget numbers by month; and the sheet that I had you look at, 1A, was an annual sheet. We actually do have monthly sheets that we use, but… these are the monthly's. You can see that the Rate Stabilization Fund increases in January to about $90,000, and February to $141,000, and March to $175,000, April to $128,000. You know, those are the months that are not expensive power. And you see then it steadily declines across the page. Yes, it bumps up and down a little bit until we get to October of this year and it drops to a negative $23,883, drops a little higher in November, [and] comes back a little in December. Then we run out the 2012 estimated budget, not approved, but CMEEC's numbers. What does this show you? Well it shows you that our Rate Stabilization Fund is going to drop from a positive $42,000 to a negative $31,000 by the end of this year. That's not a big number, it's not a big drop, and it's not a number to worry too much about. When we go to the negative numbers we pay interest to CMEEC, because it's a fund. It's a fund that sits out there, and if we are negative in the fund, like a loan, essentially you can call this a loan, we pay them interest on a monthly basis. When we're positive it's like a bank account. It's a fund. They pay us interest. Because interest rates are so low, the interest is really irrelevant to the discussion, but that's the way it works."

Commissioner Mann: "I have a question."

Mr. Hiscock: "Yes [acknowledging Commissioner Mann]?"

Commissioner Mann: "How come our… we're the second highest billing for kilowatt hours?"

Mr. Hiscock: "Okay…"

Commissioner Mann: "TTD [Third Taxing District] is $111.74."

Mr. Hiscock: "Okay go down the page, in the left-hand column, to where you see transmission."

Commissioner Mann: "Okay."

Mr. Hiscock: "Okay and you have a line that says total transmission, and under Groton Utilities it's $820… I'm sorry, $8.20 per megawatt hour. Norwich is $12.00 and change. Jewett City is $14.00 and change. SNEW is $16.00 and change. TTD is $15.00 and change. We have the highest transmission cost because of the amount of money that we're paying CL&P for the two sub-transmission lines that come across from the Flax Hill station, and this is why we're building the substation at Martin Luther King, because we want our rate to drop down to the $8.20 level which is the base level. Groton doesn't have any sub-transmission that they pay for. So that's an issue. That's one example of why we're more expensive. And that's probably the most prominent reason. There's one other reason, but it doesn't really amount to much. If you look at the very bottom of the page there's something called the Economic Development Fund. We're still paying half a cent, I mean $0.50 per megawatt hour into that fund. It's sort of like a little tiny bank account. It goes on our balance sheet. It's our money. It's held at CMEEC, but it really doesn't matter. We can draw on it. We could not pay into that fund and the systems, some of the systems have elected not to pay into that fund. I'm sort of ambivalent about whether we do or we don't, because it's our money anyway. We'll probably use that money either for the build out of the 1B09 circuit to serve the 95-7 development, if it's every built, and potentially will be built; or we'll use it for substation, for constructing the substation, either way it's certainly allowable expense. The change to that fund… well, there's two issues. If we wanted not to pay that it would simply take a vote of the Commission to do it, and then the fund would stay there, plus the interest, and that would be it. To draw down that fund, while it's not CMEEC's rule, I committed to the Commission at a public meeting sometime in 2002 or 2003 that we would never touch that fund without a vote of this Commission at a public meeting, and the reason for that has to do with a lot of issues. The fund used to fluctuate up and down because management…"

Commissioner Ayme: "Did you say public?"

Mr. Hiscock: "Public meeting."

Commissioner Ayme: "Did you say public?"

Mr. Hiscock: "Public meeting, right, at a Commission meeting."

Commissioner Ayme: "Oh, a Commission meeting. Oh, okay."

Mr. Hiscock: "Yes. Not a meeting of the electors."

Commissioner Ayme: "Okay."

Mr. Hiscock: "A public meeting of the Commission."

Commissioner Ayme: "Alright. Alright."

Mr. Hiscock: "In the past there were withdrawals from that that didn't go through a public process, and we just didn't think that was appropriate, so we just changed our internal position on that. So that's another small thing that we pay in relationship. The big one is the transmission. Then we came back, and looked at, and said... and you'll see why when we get to this in a minute. We looked at what we would do if we dropped the wholesale billing rate, which is in our power to do, by $0.25 per kilowatt hour, or by $0.50 per kilowatt hour. If we drop the amount we pay to CMEEC, obviously the expenses for the power all in are the same, so we're not covering all of the expenses. That results in the Rate Stabilization Fund declining. An example would be, if you look under the rate at… it's the second from the bottom, heading, if you run that across the page you'll see that we'll be negative $275,000 in December. Now if we drop it by $0.50 per kilowatt hour, we would have a negative $518,000 in this fund and we'd start paying interest. Over the long haul you've got to keep this fund trued up and as neutral as you can while still balancing the power costs so that they're level over the entire year, because we don't want to fluctuate. I'm going to stop here and ask if there are any questions about this page before I continue about some of the options we might take."

Commissioner Ayme: "Through the Chair, the $0.11 per kilowatt hour that we're paying, how does that compare to CL&P? Do you have any way of making a comparison in that sense; any way, if you can?"

Mr. Hiscock: "It's not easy to compare it to CL&P because our rates are not what are called unbundled in the same scheme that CL&P's rates are unbundled, and I don't want you to confuse the $0.11 that we pay CL&P with the market rate that you've been hearing about of…"

Commissioner Ayme: "No, that's wholesale."

Mr. Hiscock: "Right."

Commissioner Ayme: "I understand that. That's wholesale."

Mr. Hiscock: "Of $0.08 and $0.09."

Commissioner Ayme: "Right."

Mr. Hiscock: "Because there are other things included, but we're going to get to, in a minute, these tables which are going to show you the effect in relationship to CL&P. So what I was really trying to do was to get you to understand this table…"

Commissioner Ayme: "Okay."

Mr. Hiscock: "…so we can move to this and see where the difficulties lie."

Commissioner Ayme: "Okay, I have a couple of other questions."

Mr. Hiscock: "Yes [acknowledging Commissioner Ayme]."

Commissioner Ayme: "In the Economic Development Fund, where we have some $48,743?"

Mr. Hiscock: "No. That is the amount we would put in this year."

Commissioner Ayme: "That's the amount that we would put in this year?"

Mr. Hiscock: "Right."

Commissioner Ayme: "That we…"

Mr. Hiscock: "The current level is about $800,000."

Commissioner Ayme: "The amount is $800,000?"

Mr. Hiscock: "Somewhere between $700,000 and $800,000. I didn't come with that number tonight, but that's the magnitude of the number."

Commissioner Ayme: "So we can make a withdrawal from that amount to pay the Rate Stabilization Fund as we…"

Mr. Hiscock: "We could if we wanted to use those funds…"

Commissioner Ayme: "Right."

Mr. Hiscock: "…to lower our wholesale power costs in this year, and then lower our bills to our customers."

Commissioner Ayme: "And in doing that we would keep the Rate Stabilization Fund at $0.040?"

Mr. Hiscock: "No."

Commissioner Ayme: "$0.480?"

Mr. Hiscock: "No."

Commissioner Ayme: "No? How much?"

Mr. Hiscock: "No. We'll drop the Rate Stabilization from $0.480 to $0.460 or $0.440 depending on what kind of an action that we take."

Commissioner Ayme: "The other question that I have… I'm sorry, my last, my last. The 2012 budget, if we make, if we make no changes to the Rate Stabilization Fund and the contributions that we should be making, are you… these projections show an amount in the red here, negative amount, of $416,000?"

Mr. Hiscock: "No."

Commissioner Ayme: "$877,000?"

Mr. Hiscock: "If we make no changes…"

Commissioner Ayme: "If we make no changes."

Mr. Hiscock: "…it's the $51,568."

Commissioner Ayme: "$51,000."

Mr. Hiscock: "Okay, that's… it's the next heading above that. Maybe I should have put one, two, three out there. Current PPA, if we leave the PPA where it is, we'll be at $51,000 in June of 2012.

The next two are if we lower it. Now I didn't put a PPA number in there because it gets a little confusing because there's a yield. The discount creates some confusion and all of that, so we just left the billing rate here for you to see. We would have to actually back into a number, and really it would go, it would be either $0.046 for the first drop, give or take a little bit, and $0.44 for the second drop, give or take a little bit. I didn't want to run the decimal places out that far."

Commissioner Ayme: "So the changes that we are proposing here to the Rate Stabilization Fund, we are talking about internal changes. This has no bearing on the rates to the public, am I right, to the consumers?"

Mr. Hiscock: "If we change the PPA it affects the customers' bill, and we'll get to that in a minute, but yes, the PPA either adds or subtracts from the customer bill. If you increase the PPA the customers' bills goes up, if you decrease the PPA the customers' bills go down, and the illustrations will be here shortly."

Commissioner Ayme: "Okay, that's it. Thank you."

Commissioner Harris: "I'm not sure if this is something you can answer distinctly, but I'm totally confused as to how the PPA affects the Rate Stabilization Fund. I can always come to the University of John later."

Mr. Hiscock: "Okay, I'm trying to make this…"

Commissioner Mann: "Simple."

Mr. Hiscock: "…work. The PPA changes what are customers pay, and what are customers pay affects are revenue for the year, and results in how much we… profit or loss we have at the end of the year. So it really has to do with the billing rate to CMEEC… we control all of this, and I think it's very important for you to understand that we really control all of this. We don't control CMEEC's cost to us, but we control how much we pay CMEEC, we control how the Rate Stabilization Fund goes up and down, and we control the level that we set the PPA at, and it's sort of a balance, okay, it's sort of a balance. You've got to worry about what we charge the customer, at the same time you've got to worry about profit and loss at the end of the year; and you remember from the November meeting, we're losing money in the electric utility, and we're losing money in the water utility; not on a cash basis, but when you add depreciation in we have some losses. So this is a balancing act we're sort of talking about tonight. How are we going to worry about what our customers pay, not go too far negative in the Fund, and be able to pay our bill to CMEEC? Those are the things that we're really worried about here. I think that's the best I can do without really getting into a very detailed explanation."

Commissioner Harris: "I'll come to the University of John [laughing]."

Mr. Hiscock: "Okay."

Commissioner Ayme: "Alright, I have a question. Through the Chair, how specific do we have to be in terms of raising the rate as much as we have to within reason? How specific do we have to be in terms of… I'm going to repeat myself here. How specific do we have to be in terms of increasing the rates to the consumers without making any changes here? Do we have to specify? Do we have to be very specific?"

Mr. Hiscock: "When you get to the recommendation this evening you're going to end up with sort of an explanation to that. The recommendation that's included in the board book is to not change the PPA, and I'll explain why that recommendation is going to be made."

Commissioner Ayme: "Not changing?"

Mr. Hiscock: "That's the, yes, that's the…"

Commissioner Ayme: "The PPA?"

Mr. Hiscock: "…the recommendation is to not change the PPA at all, but there's going to be a caveat to that when we get to it, and that caveat is we may change it downward next month or the month after."

Commissioner Ayme: "Why?"

Mr. Hiscock: "Because right now some of our rates that our customers are paying are higher than CL&P, and that is quite frankly unacceptable. Now…"

Commissioner Ayme: "Is that on a percentage or the whole… as a whole?"

Mr. Hiscock: "No, we're going to go over line by line…"

Commissioner Ayme: "Line by line, okay."

Mr. Hiscock: "…as we go through the presentation, and you'll see where it happens and why it happens, okay, I can give you some better explanations."

Commissioner Ayme: "Now, I just need a clarification. When you say that not changing the PPA, it's actually making… perhaps not making a change from 0.40 to 0.48, but we have to ratify the changes that were approved last year, or that were ratified last year. Am I correct?"

Mr. Hiscock: "No."

Commissioner Ayme: "Okay."

Mr. Hiscock: "The PPA that we set last year is .048."

Commissioner Ayme: "That's what I'm saying."

Mr. Hiscock: "You don't have to do anything to it. If my recommendation, and you accept the recommendation, is to leave it the same, it is the same and you don't need to make a change to it. You don't need an affirmative motion to leave something the same. Now if you want to for ratification purposes do it, that's fine. That's not an issue, but you don't need to. If we change it you need to make a motion."

Commissioner Ayme: "So where does the .04 come in?"

Mr. Hiscock: ".040 was the prior, .048 is the current PPA."

Commissioner Ayme: “When did we have the .040?”

Mr. Hiscock: “The year…”

Commissioner Ayme: “The year before?”

Mr. Hiscock: “Yes. Yes. We’ve had .048 for the entire year of 2010, except for January. For 2009 it was .040.”

Commissioner Ayme: “I’m trying to understand this here, so forgive me for a second here. Bare with me. If we left it at the… at what it is, or what it was, the .048 as we have it…?”

Mr. Hiscock: “That’s what it currently is.”

Commissioner Ayme: “Is that what’s reflecting the deficit here of $31,380?”

Mr. Hiscock: “That is correct.”

Commissioner Ayme: “That’s reflecting the $31,000? And if we make changes on the following lines here…”

Mr. Hiscock: “Right.”

Commissioner Ayme: “…the up a quarter, down…”

Mr. Hiscock: “Down a quarter, down fifty.”

Commissioner Ayme: “Down a quarter, down fifty or whatever, these are the projections that you have here for minus $51,353?”

Mr. Hiscock: “No. Down a quarter leaves you with $275,110 in the hole. Down fifty cents leaves you $518,815 in the hole.”

Commissioner Ayme: “Going down, how would that be reflected on the customers’ bills? I understand about the deficit and all that…”

Mr. Hiscock: “We will actually look at that in a minute.”

Commissioner Ayme: “Okay. Alright.”

Mr. Hiscock: “Once we get to the spreadsheets…”

Commissioner Ayme: “Okay, I’m getting ahead of myself. Okay.”

Mr. Hiscock: “…this will all become evident. I think you’re a little ahead of the presentation…”

Commissioner Ayme: “Okay. Alright.”

Mr. Hiscock: “…by asking the questions proactively.”

Commissioner Ayme: "Alright."

Commissioner Ramirez: "Chair, just a simple question? When you say if we're running in the negative we're going to have to pay a percentage, what is the percentage that we…?"

Mr. Hiscock: "Interest rate, it floats a little bit. It's probably in the two range, about 2%. It's really CMEEC's cost of money."

Commissioner Ramirez: "And that doesn't matter if we… the more money that we owe, the more we pay, or it remains the same?"

Mr. Hiscock: "Well, like any loan you have, the more money you owe…"

Commissioner Ramirez: "Okay, so it varies then."

Mr. Hiscock: "…with a fixed interest rate, the more you pay."

Commissioner Ramirez: "So it can vary from two to…?"

Mr. Hiscock: "No, the rate doesn't vary. The actual dollars varies."

Commissioner Ramirez: "Okay."

Mr. Hiscock: "Not the rate."

Commissioner Ramirez: "Okay."

Mr. Hiscock: "The rate is based on CMEEC's monthly cost of money."

Commissioner Ramirez: "Okay, that's what I was…"

Mr. Hiscock: "Now I've got one other, before we talk rates, I've got one other concept that you need to understand. The Competitive Municipal Trust, in which we have approximately $5 million, give or take, mostly give, but order of magnitude, $5 million. Under CMEEC's rules we can, for rate stabilization purposes, and other purposes, but primarily for rate stabilization purposes, we can withdraw from the Competitive Municipal Trust up to 10% of its value annually. So if, 'if', we were to elect a fifty cent drop in the amount of… in the rate that we pay to CL&P, and that will reflect in the customers' prices, the negative $518,000 that you see there could be covered, and it could be zero."

Commissioner Ramirez: "Yes, but then we'll be in a deficit on the Trust too."

Mr. Hiscock: "Well we won't be in a deficit in the Trust."

Commissioner Ramirez: "We will no longer have the money."

Mr. Hiscock: "We will not have the money in the Trust."

Commissioner Ramirez: "Exactly, so…"

Mr. Hiscock: "Okay, so in other words what you…"

Commissioner Ramirez: "That's like going to the piggy bank…"

Mr. Hiscock: "So you are taking money…"

Commissioner Ramirez: "Right."

Mr. Hiscock: "…out of cash, okay, to keep the rates lower."

Commissioner Ramirez: "But when you…"

Mr. Hiscock: "That's something that… well, let's put it another way. Well let's look at it this way; yes, you are correct. If you take it… if you do that you're going to take it out of cash, okay? That cash built up in that fund because you charged the customers more than you needed to cover your bill to CMEEC. So that's where the cash came from. This is why these things are all wrapped around each other. So from a policy perspective we were in a very good position from 2001 through about 2009 because CL&P was paying a lot more for power than we were. We set a goal of 30% lower for our residential customers and 10% lower, you know, a goal, on average for commercial customers, and we priced it that way, and since we priced it that way we ended up with more money than we needed, and it goes into the Trust. Now that's a simplistic example, but I'm telling you where the money came from. From a practical purpose that money built up long before the early 2000's. And it actually built up when we were charging our commercial customers about 10% to 15% more than CL&P. So it's all related."

Commissioner Ramirez: "But if we're going back to that, okay, we might put the bandage to this situation for this year into the next following year. What happens right after that? Are we going to go back into the same issues that we're confronting right now?"

Mr. Hiscock: "You might."

Commissioner Ramirez: "Well."

Mr. Hiscock: "You might continue to drop that Fund. Now…"

Commissioner Ramirez: "Which…"

Mr. Hiscock: "We have a debt structure with CMEEC, and the purpose of the Municipal Trust was to have sufficient money to cover our reliability under a Bond issue, and for years it built up, and we had a liability up here, and we continued to save more money in the Trust, and that was actually at the time called Rate Stabilization Fund; remember we split it, and that money was going up. At the same time our responsibilities under the Bond issue had been declining. In 2017, I know that sounds like a long way away, in 2017 that Bond issue will be paid off and we will have zero liability for that Bond issue. So even if you were to use that Fund in its entirety between now and 2017, you wouldn't have a big liability to pay because you're paying that liability down as part of the amount of money that you're paying here to CMEEC."

Commissioner Ramirez: "But then again…"

Mr. Hiscock: "So it's really all a balancing game."

Commissioner Ramirez: "Right."

Mr. Hiscock: "It's how much money you want in cash versus what your customer… the bottom line here, how much money you want in cash versus how much you want your customer to pay. That's really what all of this is about."

Commissioner Ayme: "All… if I may through the Chair, all that I've heard here, it begs the question, what position are we in, in terms of our position as a public utility, and taking more money than we… than we required when we were charging more. What position are we in, in that sense?"

Mr. Hiscock: "It was the rates that were set at the time."

Commissioner Ramirez: "It was the (inaudible)…"

Mr. Hiscock: "The rates were set in about 1992. We had a decade of declining electric prices, and a lot of electric utilities built cash that way; not unusual. We're no different than anybody else."

Commissioner Ayme: "Even though we were taking in more money then?"

Mr. Hiscock: "Yes, there's a whole pile of rate making theories that you could argue that the past customer is subsidizing the current customer. I mean this gets really into detail rate making policy, but yes, you try to balance it out over the long haul. Now for a very long time we were in a very envious position of having a lot of cash and very good interest rates. So we were bringing in $500,000 to $700,000 per year in interest, and that covered our losses."

Commissioner Ramirez: "Okay."

Mr. Hiscock: "When the interest rate dropped, you saw what happened to our profit and loss. We started with bigger losses."

Commissioner Ramirez: "Through the Chair?"

Commissioner Burgess: "Yes [acknowledging Commissioner Ramirez]."

Commissioner Ramirez: "That's probably going to (inaudible) us into a… suppose that money that we have in cash right now, can that also be utilized to build our station in case we need it? In case, let's say we don't touch it and later on we might need extra dollars to dip into the Trust fund, can that be utilized also?"

Mr. Hiscock: "Yes, it absolutely could be used for the station. Two years ago I would have said to you, you would never do that, because the Bond market, the Municipal Bond market was such that we would probably bond the project, get good interest rates, and we'd be better off with the money in the bank and paying low interest rates. Those of you who have been paying attention to the financial pages, there's an indication that Municipal bonding rates are going to go up significantly due to the fact that most government forms are under water. Their balance sheets, if you put their deferred liabilities on the balance sheet today they'd all have no net worth because of pension and other benefits. It's all… it's just how you use the cash, and what works best for the customer. That's really what we're talking about. I know this is a long discussion, but we really need to think about this issue."

Commissioner Ramirez: "Scout around for profitable entrepreneur businesses, it's as simple as that, that's basically what we're running."

Mr. Hiscock: "Yes."

Commissioner Harris: "I just…"

Commissioner Burgess: "Go ahead [acknowledging Commissioner Harris]."

Commissioner Harris: "Thank you. I just have a quick question. If we were to take the cash to pay, if we go down $0.50, how would that be replenished? How do we build back up that fund?"

Mr. Hiscock: "You might replenish it… you'd replenish it through rates, one way or the other. And the ideal thing to do would be to replenish it when our rates were lower than our competitors' rates. That probably would happen when gas prices were high. Right now our wholesale energy costs are higher than the spot market because gas prices are very low. We at CMEEC buy gas futures, and the reason we buy gas futures is in a rising market if you buy gas futures you can stabilize your prices when gas explodes. Gas and oil by the way track each other. They're about the same. It's about the energy they provide. Two years ago when gas prices went real high and then started going higher we bought a pile of gas futures. The economy dropped, the price of gas fell through the floor and we're now, for the next two years or so, and I can't give you the exact numbers, but the next two years or so we're paying higher for gas than the spot market for gas. That drives our wholesale cost of power higher than CL&P's cost of power. That's a tough spot to be in. That's where we are today. And it's going to be that way for probably two more years."

Commissioner Ayme: "That's because of what happened last year."

Mr. Hiscock: "That's because of what happened to the gas market…"

Commissioner Ayme: "That's right."

Mr. Hiscock: "…and the fact that we had bought the hedges…"

Commissioner Ayme: "That's right."

Mr. Hiscock: "…(inaudible) gas…"

Commissioner Ayme: "And the margin accounts that we had."

Mr. Hiscock: "…and the market dropped…"

Commissioner Ayme: "Right."

Mr. Hiscock: "…and that was that. And that was one of the reasons we ended up with the mark to market and posting all of that money. So you might do that, if you can get into a favorable position.

I think our long-term goal as a municipal electric… I think there's two goals. One is to keep the prices as low as possible, but I think the other thing from a strategic position is you always want to keep the price lower than the IOU [Investor Owned Utilities] around you, because if you don't there's going to be some pressure, some political pressure, to open our customers up to competitive suppliers, and that's a real serious problem for a small utility. And that's where we're going to end this discussion in a few minutes; that if we continue to have certain customer classes, especially the businesses, the ones that are the biggest problem right now, paying more than they can pay for CL&P using an alternate supplier; and you can get a one-year contract now at about $0.09 per kilowatt hour, somebody's going to call Bob Duff, or Larry Ferro, or whomever, and say 'You know what, I'm getting screwed by this electric company. If you didn't have the prohibition in the Statute that prevented me from buying competitive power, my power would be lower, significantly. That's a lot of money to me. I'm in a marginal business.' That's the risk here. That is the biggest risk we have, and that's why we have to pay a lot of attention to this. You know, three years ago this was real easy. We sat here and looked at these numbers and said 'Oh yes, we're 30% below here, and we're 10% below here', and the other thing to remember, CL&P cut their rates by 7%. So now we're in a squeeze, and that's going to be an issue that we have to pay a lot of attention to."

Commissioner Ayme: "You're going to get into some details here, right?"

Mr. Hiscock: "Yes. I'm going to get into the… where our rates stack up against the competition."

Commissioner Ayme: "Before we get into that I just… I reaffirm myself. We have $5 million at CMEEC in one account, the competitive…"

Mr. Hiscock: "Competitive Municipal Trust."

Commissioner Ayme: "That's right, and we have $800,000 in another account?"

Mr. Hiscock: "Yes."

Commissioner Ayme: "That's what we have?"

Mr. Hiscock: "Correct."

Commissioner Ayme: "Nothing else?"

Mr. Hiscock: "Yes, I mean, that… other than small dollars here and there."

Commissioner Ayme: "I understand."

Mr. Hiscock: "We've got money in the Conservation Fund, but we're not allowed to use it for rates."

Commissioner Ayme: "Since the subject of the transfer station was brought to the table, the financing, or the payment of the construction, how is that going to be financed again, by way of…?"

Mr. Hiscock: "I think we need to make that decision going forward."

Commissioner Ayme: "Okay."

Mr. Hiscock: "It can be done by bonds."

Commissioner Ayme: "Okay."

Mr. Hiscock: "And if the bond market is reasonable…"

Commissioner Ayme: "Right."

Mr. Hiscock: "…and our rating is good enough…"

Commissioner Ayme: "Alright."

Mr. Hiscock: "…we certainly could issue bonds to build the substation."

Commissioner Ayme: "Okay."

Mr. Hiscock: "If the rates are too high we have the ability to take it out of cash. Okay, that's a decision we don't need to make now."

Commissioner Ayme: "I understand that."

Mr. Hiscock: "We need to see what the bond market is…"

Commissioner Ayme: "Right."

Mr. Hiscock: "…when we get to construction."

Commissioner Ayme: "And we still have approximately $10 million in…?"

Mr. Hiscock: "Pretty much."

Commissioner Ayme: "Okay. That's what I want to confirm."

Mr. Hiscock: "Pretty much."

Commissioner Ayme: "Okay. Alright."

Mr. Hiscock: "Although it is declining, but it's in the realm."

Commissioner Ayme: "Alright, now we're going to get into the details."

Mr. Hiscock: "Okay."

Commissioner Ayme: "Thank you."

Mr. Hiscock: "You have these large spreadsheets in front of you. I don't think you really need to go into every single line of it, but it's just how the rates play out. You look at the left-hand side of the page where the yellow is on Rate 10-A sheet, the first one, and those are how SNEW's rates are calculated. Energy is the left-hand column, how many kilowatt hours you use. The customer charge is the basic metering customer charge. Then we have a first block, $0.10, and another block at a little more than $0.10, and then a block at $0.12, and a block at $0.13. We have an inclining block structure. The more you use, the more you pay, per kilowatt hour. It's been that way since 1992. And this plays out how you get to the Rate 10, the bold column in the middle of the page. That's how you get to that number. And if you look in the yellow you will see the PPA is 0.048, current PPA. So this is our current rates, and then we have the new CL&P rate. What we end up doing is we take South Norwalk Electric and Water Rate 10 and CL&P Standard Service Rate 1; we just have different designations, and we run them down per kilowatt hour. And then we take the difference, and you'll see a column, the extreme right-hand column, shows our rate in relationship to CL&P. And if you don't use any energy we're 55% lower. If you use 4,000 kilowatt hours per month, which is a pretty big number, we're 1.2% lower. If you look at that column you'll see that it decreases very rapidly in the beginning, because our customer charge is very low in relationship to CL&P's customer charge - our column 1, $7.41; CL&P's column 1, $16.00. Okay, that's what causes that anomaly. We will fix that with the rate consultant that we're using to work on our rates. But what I want to show you is right now our residential customer is doing relatively good in relationship to CL&P, and certainly all the way down through some pretty heavy use, you know at 2,000 [energy], that's a 10% difference. You know, you can't get criticized for any of this. We're doing, we're doing good here. Flip the page, and now that you know the structure here we're going to look at Rate B, Rate 10, page B, second page. You look at the PPA, the yellow column, and you can see we dropped it to $0.046. You compare the two columns, you'll see we start at 55.5% lower again, because obviously the customer charge is the customer charge, and we run down, and if you really look at those two columns, eh, we're slightly better than the first page, but not by much. That's an important thing to note. So you can see the effect of slightly lowering the PPA slightly improves our margin between us and CL&P. Okay, the next thing we did was we went to page C, Rate 10-C, and we took CL&P Standard Service with a third party supplier. We went out in the residential market and tried to find out the best current price that you can… a competitive price, in other words you call up ConEd Solutions, or you call up Levco, or any one of those suppliers, the ones that have been bothering you over the phone even though they can't sell to you, and we came back with a generation services charge of .085. That's better than CL&P's standard service charge of .09232. We did the bills the same way, and you look at the difference in this one, and we started with the same 55%, but go down to the bottom of the page and all of a sudden for the biggest user we're 3.6% higher than a CL&P customer who has chosen a competitive supplier. That starts to be interesting. If we look at the next page, and that's with our current PPA of .048, so we drop the PPA to .046, and I didn't illustrate with the next lowest one, but just to give you a feel for how little difference some of this will make, if you look at the bottom of the page, instead of being 3.6% higher we're 2.4% higher. And I'd be willing to say to you that if we dropped it the extra quarter we'd probably be, you know, 1.2% higher. These are the kind of numbers we're looking at. Now go to the next page, and in the upper right-hand corner it says Rate 11-A. We did exactly the same thing with the next four sheets. We used exactly the same scenarios, our current rate, dropping our PPA, against a standard supplier, then going out and looking at the competitive supplier with our current PPA, and looking at our current supplier… and looking at the competitive supplier with a lower PPA. We're doing okay on the first page, because this is CL&P's default service. We start high, but very quickly we get into about the 8% lower than CL&P, below our target of 10%. If we lower on the next page, which is 11-B, you know if we lower the PPA to .046, instead of being in the 7% range, we're in about the 8% range, you know, about 8%, so we picked up a little bit. Now, when you flip the page and look at the CL&P third party supplier, you know, when they go out to ConEd Solutions and get a price of .087, now you start to look at those differences and we're almost identical. So right now our Rate 11 customer at our current PPA is paying the same with us as they would if they had a competitive supplier in CL&P, so we are no longer an advantage in this whole rate class, and that's a problem. But it's still not bad, okay, we're still not higher. Okay, you can see their all negative, all the way through, except for one that's .1% higher, and that's a meaningless number. You flip to D, and if we lower our PPA you can see that we do slightly better, you know we're 1%, 1.7%, 1.2%, 1.3%, and it's just… not good, but we're still okay. So for our Rate 11 customer we're still doing reasonably well. Now we go to page 12-A, and this is where the trouble starts. Okay this is our current PPA, this is CL&P's standard service, and we're higher. We're higher, not but a lot except, you know, for the very large user at the bottom of the page, and for the very small users at the top of the page, because this is demand based rate, but this is where we start to run into trouble. Rate 12 is essentially general commercial service, okay, with a demand charge. This is general commercial. This is not a good number."

Commissioner Ayme: "This applies to all businesses?"

Mr. Hiscock: "[Rate] 11 is general commercial service for small users, you know, you're little tiny storefront; not a big user. [Rate] 12 is restaurants, bars, bigger users, anybody who's got refrigeration, anybody who's got a lot of lighting, has higher than a 2 kw demand. The bulk of the customer on the commercial side is here. Now these…"

Commissioner Ayme: "Businesses like Toys R Us and…?"

Mr. Hiscock: "Toys R Us is a way bigger user. 50 Washington Street, Toys R Us, the Maritime Center; we haven't run those numbers yet. We haven't run those numbers because we just got them from CL&P and we're constructing all of this."

Commissioner Ayme: "So I would imagine it gets worse there?"

Mr. Hiscock: "I'm not sure at this point."

Commissioner Ayme: "Okay."

Mr. Hiscock: "I'm not sure at this point, and that's why my final recommendation is going to talk about timing issues."

Commissioner Ayme: "Okay."

Commissioner Ramirez: "But definitely all of the large restaurants (inaudible) that we have right now?"

Mr. Hiscock: "Yes, all of those businesses that…"

Commissioner Ramirez: "Yes, that we cover."

Mr. Hiscock: "…you understand…"

Commissioner Ramirez: "Yes."

Mr. Hiscock: "…are right on the edge."

Commissioner Ramirez: "That's correct."

Mr. Hiscock: "Those competitive bars, and restaurants, and all of that."

Commissioner Ramirez: "Yes."

Mr. Hiscock: "Businesses that aren't well capitalized generally are running off their checkbook."

Commissioner Ramirez: "If you look in general, the businesses that we cover, that's basically what we're talking about."

Mr. Hiscock: "Then you go to 12-B, and that's if we drop the PPA. And you look at that, you know, it really doesn't make a whole lot of difference. So this is not very solvable. This is not an easy situation. You go to 12-C, and this is where the numbers are frightening. This is the competitive supplier, that if you lived… if your business was on, we won't use Wall Street, that's a terrible example. If your business was Post Road, you're a bar on the Post Road. You're Black Bear in South Norwalk versus… what's the name of the place… Rowley's, at the corner of Connecticut and Scribner, fairly similar bars, fairly similar establishments size wise. Black Bear…"

Commissioner Ramirez: "A killing."

Mr. Hiscock: "Getting killed."

Commissioner Ramirez: "Yes."

Mr. Hiscock: "This is not good. And then if we drop our PPA, and we didn't highlight that one, but still, I mean, you look at the last page. It's not a good situation. These are quite frankly the first time I've ever had to come to you and say we have ugly numbers. They're not good, and they're ugly. So… I mean, I can answer any questions about this. I will tell you that this is only three of our rates. We don't have large commercial service listed here. We don't have primary service. There are other things in here that we are still running out, and while this looks like a daunting task it's really not that hard. The spreadsheets are all set up, and usually what happens is I go into Mark [Harris] and say okay, make this assumption and run me a sheet; do this, and you know, once the basic things are set up. Every time CL&P changes their rate structure however we have to re-construct the calculations on the spreadsheet."

Commissioner Ayme: "Yes, through the Chair."

Commissioner Burgess: "Yes [acknowledging Commissioner Ayme]."

Commissioner Ayme: "Not by lacking a better word that I don't want to use here, right now we are facing a very delicate situation here."

Mr. Hiscock: "Yes we are."

Commissioner Ayme: "That's what I think."

Mr. Hiscock: "Yes."

Commissioner Ayme: "Very, very delicate situation. What's your recommendation?"

Mr. Hiscock: "What I'm going to recommend is a couple of things. One, the recommendation that's in the book stands, that we leave the PPA right where it is. And that plays to my comment to you that I prefer that we don't get into this ratification of the current PPA, because what I want to do is in February, between now and the February meeting, I want to run the rates out for the rest of the rate classes so we can see how everybody is affected. Okay, I can only tell you how the smaller commercials and the medium sized… I can't tell you how the larger ones are. We need to look at that carefully."

Commissioner Ramirez: "In general, right."

Mr. Hiscock: "Okay, that's important. I also, several months ago, talked to you about the fact that we've hired a rate consultant, and we need to look at our rates. And I think you all remember that I said our rates are very sort of convoluted, and you can see it. When you look at the first page, when the very small users are so much lower than CL&P, and then it gets down to almost even with CL&P at the bottom of the page. That's because we've never changed our customer charge, and that's because we have put a lot into the PPA. And that's a problem. Our rates need to be fixed, and they need to be… they need to match how everybody charges rates these… currently. And that's the purpose of the rate consultant. What will happen, you're going to have a lot of decisions this year to make like this, and it's going to be a pretty tough year. You might be in a position of coming to the understanding that it's very unrealistic to think that we can keep residential rates 30% below CL&P, because if we keep them 30% below CL&P our commercial rates… if we keep our residential rates 30% below CL&P, to offset that our commercial rates are going to have to be higher than CL&P, and that's really…"

Commissioner Ayme: "No."

Mr. Hiscock: "That just doesn't work either. I mean we want…"

Commissioner Ayme: "We can't do that."

Mr. Hiscock: "You know even though they are bars and restaurants, they employee people, and they keep people in South Norwalk, and it needs to happen. I think we're going to come to that realization that 30% is not going to be achievable. The other thing I think you're going to see is we will have a rate structure that is going to be more level in relationship to CL&P. We're not going to have the low end 30%, 40%, 50% lower than CL&P. So this sheet is going to look a little differently. If it's 20% lower than CL&P, it's going to be 20% top to bottom. This is kind of an important issue. That's one thing that we're going to need to think about. The rate study won't be done until July 1, so we're going to struggle for a couple of months here until we can really deal with all of this."

Commissioner Ramirez: "So if I hear you correctly, Chair, if you don't mind, so if I hear correctly, definitely I can read that you would suggest to increase the rates on the residential in reference to keep the commercials in balance due to the comparative?"

Mr. Hiscock: "Yes."

Commissioner Ramirez: "Would it be so much trouble to request to see how many businesses that will be affected versus the residential, and perhaps maybe, definitely residential is going to be a lot more than (inaudible), but when it compares to money, see how much would be the balance in between."

Mr. Hiscock: "That will come out of the rate study."

Commissioner Ramirez: "That's correct."

Mr. Hiscock: "Yes, that kind of information will come out of the rate study.

Commissioner Ramirez: "Maybe I'm…"

Mr. Hiscock: "If you think there's a lot of information here…"

Commissioner Ramirez: "I'm (inaudible) out there. I'm way ahead of (inaudible)."

Mr. Hiscock: "…you'll see 30 or 40 of these."

Commissioner Ramirez: "This person that we're, that you're going to be hiring, is a person who's actually going to be recommending all these different rates and…"

Mr. Hiscock: "The process is…"

Commissioner Ramirez: "…different choices that we might have to choose?"

Mr. Hiscock: "Yes, the individual that we're dealing with is Mayhew Seavey from PLM [Power Line Models, Inc.], a very well known electrical consultant, does a lot of rate work. The tasks that are currently included in the contract involve starting off with a request to us for information, and we will give him a tremendous amount of information about every customer rate class, the numbers in the rate class, what they're paying, how much money comes in. I mean we're basically going to give a snap shot, not a snap shot, a full piece of information about exactly what we do now. From that it will look at a revenue needs and requirements. We will then do what's called a cost of service study. A cost of service study is a thing that allocates costs of doing business based on certain classes of customers; it's sort of an art, but it's a science too, and he'll come back with a classic cost of service study. The other thing we've asked for is to then set rates similar to the rate structures that CL&P and UI use so that we compare things and our customers can compare things. Once that's done there's going to be a presentation to the Commission about all of this information, and then we're going to look at the rates and how they relate to CL&P and UI, and how they come out, and then some decisions are going to have to be made, some policy decisions are going to have to be made, as to what you might want to change to achieve certain goals of the Commission. And I'm not going to presuppose what the goals are, okay, but one of the goals might be a rate structure that is similar to CL&P and UI, and to maximum extent practical, lower than. Okay, so that's the process we will go through. Once the rate analyst is on board, and has completed a good portion of the work, he's going to be here a month, two months, three months before this Commission going through all of this. Those are going to be long meetings. They'll be like tonight."

Commissioner Ayme: "Through the Chair."

Commissioner Burgess: "Go ahead [acknowledging Commissioner Ayme]."

Commissioner Ayme: "If we have that criteria right now based upon what you said, you know, establishing rates, based upon the same, or not the same, but close, as CL&P and UI, why do we have to get the, a consultant?"

Mr. Hiscock: "A couple of reasons. One, you can't set arbitrary rates. You've got a duty to set rates that are defensible and reasonable, and are cost based. And that's what you will do as part of this process, but there'll be some policy decisions that you can make. If you went to a rate change without going through an evaluation you would be open to suit by rate payers."

Commissioner Ayme: "But we are acting within the industry?"

Mr. Hiscock: "We're acting within standard utility practice, which is extraordinarily important. You can't just run out and do what you want to do."

Commissioner Ayme: "Okay."

Mr. Hiscock: "Now, hopefully in this process, when we do the cost of service study, our service territories are somewhat similar to CL&P's, although we have a lot more low income individuals, but as we go through this process, you know, hopefully the policy decisions we make don't vary too much from the cost of service. That's important."

Commissioner Ayme: "And based upon your experience, how much do you think a consultant would charge for this type of work?"

Mr. Hiscock: "I think I presented the numbers to you about three or four months ago. Don't hold me to the number…"

Commissioner Ayme: "Right, no, just a ballpark."

Mr. Hiscock: "I think it's $30,000, give or take."

Commissioner Ayme: "For the whole study?"

Mr. Hiscock: "If somebody remembers... would you happen to remember Candace [Ms. Fox]?"

Ms. Fox: "No."

Commissioner Ayme: "For the whole study?"

Mr. Hiscock: "Yes."

Commissioner Ayme: "For the whole study?"

Mr. Hiscock: "Yes."

Commissioner Ayme: "$30,000?"

Mr. Hiscock: "Yes, somewhere in that range. It's very, very small dollars to spend for the comfort of knowing what we're doing is correct."

Commissioner Ramirez: "And the demographics (inaudible) specific that we would have the choice to choose instead of just thinking about it and digesting any one (inaudible) opinion, which might end up on something different."

Commissioner Ayme: "Well I just wanted to hear the criteria…"

Mr. Hiscock: "Yes."

Commissioner Ayme: "…under which we are going to, we are going to proceed."

Mr. Hiscock: "Yes, this is not a large number, and once we have the rest of the rates run out, in February I may make a recommendation to drop the PPA, and obviously the rate would pay to CMEEC at a level, and then with a recommendation that would go with it to withdraw a certain amount of money from the Competitive Municipal Trust. Before I make that recommendation I will give you all of the information with respect to the Trust. You'll get a spreadsheet like this showing how it was built up. You will also get a spreadsheet showing our obligation for debt so that you will see that in essence [sketching a diagram]… okay, Fund built over time. This is time down here. This is dollars over here. And you'll get these in a presentation, okay? That's time. Okay, Fund built. Originally the debt was up here, the Fund was down here. The Fund built. The debt was paid off. Somewhere around 2000 and, don't hold me to the date, somewhere in 2008 range, they were equal. Right now the debts getting paid off, the fund is increasing, kind of slowly, but it's increasing, so there's an amount of dollars between here and here that represent having more funds than our liability, and the further we go out in time the greater that is. So as part of the February presentation we will have this in a nice pretty colored picture with numbers and dates and other things. I just wanted to let you know where I'm headed with all of this, and where I think we need to go. Procede…"

Commissioner Ramirez: "May I…?"

Commissioner Ayme: "Okay, go ahead [acknowledging Commissioner Ramirez]."

Commissioner Ramirez: "May I ask, through the Chair… I'm sorry, finish [directed to Mr. Hiscock]."

Mr. Hiscock: "I was just going to say procedurally the Commission would have to pass a resolution requesting the CMEEC Board of Directors to approve a withdrawal from the Competitive Trust, and there're some other issues with respect to how we would accomplish that. The good news is it's for rate stabilization so it basically, the rule to the Trust says that the CMEEC Board may not unreasonably withhold the funds or deny the request. So they really have to comply."

Commissioner Ayme: "Through the Chair."

Commissioner Burgess: "Yes [acknowledging Commissioner Ayme]."

Commissioner Ayme: "I would like to table that until, at least until next month."

Mr. Hiscock: "Well that's what I indicated, that the presentation would be next month…"

Commissioner Ayme: "Oh, okay. Alright."

Mr. Hiscock: "…we were going to make no changes tonight. The PPA is…"

Commissioner Ayme: "Oh, okay. Alright."

Mr. Hiscock: "…going to stay where it is, and then we will have a more detailed presentation. But this is a lot to digest. I didn't want to do this in February, we'd be here three hours."

Commissioner Ayme: "Okay. Alright."

Commissioner Ramirez: "There's only question."

Mr. Hiscock: "Yes [acknowledging Commissioner Ramirez]?"

Commissioner Ramirez: "In reference to the budget that we have, but I can see this lately, I'm pretty sure that most of you are aware of all this construction that's going on with the electrical issues that transpired in different places, they're changing the transformers, changing all different… are we still on a budget? Are we expecting to be short, or…?

Mr. Hiscock: "No."

Commissioner Ramirez: "No?"

Mr. Hiscock: "We are… the improvements that we're doing around town, and there are a significant numbers, and we're changing switches all over the place; we've got failing switches, they are budgeted, they are in the budget, and we have a procedure that you can't start a project until you fill a form out, you give me an estimate of essentially what it's going to cost, I take a look at it, and this is done by the Department heads, and then I sign off and say you can go forward with the project. Part of that process is I get a spreadsheet, and the spreadsheet says the amount of money allocated, every project that's been taken out to date, and the next one I'm approving…"

Commissioner Ramirez: "Okay, so…"

Mr. Hiscock: "…so that we have a very good control to make sure that we do not exceed the budget authorization."

Commissioner Ramirez: "Okay. With that in mind, on the same line also, I know we're dealing with electricity here, and we have a serious problem with the Water Department, with all these breaks, how are we doing there? I mean the latest, I think that was one of the big issues, when one of the big pipes…"

Mr. Hiscock: "We have a significant number of breaks on the 16" water main on Woodward Avenue."

Commissioner Ramirez: "And perhaps we expect a lot more too."

Mr. Hiscock: "Yes. Yes, we've been lucky the last two or three weeks. It's calmed down a bit. The number of breaks that we're having this year is a little bit higher than the last year or two, but it's not higher than some of the histories we've had when we've had failing asbestos cement mains. The Chairman was on the Commission when I had to stand up one night and say we just spent

$100,000 that wasn't in the budget because we've had the eighth break or ninth break on Hunter's Lane and we have no choice. We went out and just replaced, and then during the budget procedure we told the electors we did it, and we asked them to ratify doing that. So we've had years worse than this, although it's not good. It's not good. We spent a lot of money rebuilding the plant, and our plants in pretty good shape. Our pump stations are in reasonably good condition. Our water distribution system is not, and we're probably just like every other old inner city, we all have that problem. We're going to have to make some changes in the water utility to get more revenue to continue to replace piping."

Commissioner Ramirez: "Do we have a plan in place, or in mind, as you say, in perhaps the length of time that we might be replacing at least the majority, or perhaps half, of the very old system that we have?"

Mr. Hiscock: "We are in the same position that every other water utility is in. We spend nowhere near enough money on main replacements because we're always worried about rates and we're always trying to keep rates low. So consequently we all do the same thing, we defer maintenance, we defer maintenance, and we don't replace things. And just like we're talking about looking at our competitive surrounding electric utility, we do the same in the water business. We see where our rates are. You'll end up with that decision fairly soon also, when we come back and look at rates. We don't use a consultant to do water rate analysis because it's not as complex and it's relatively easy. You'll be getting a proposal this year to increase water rates, and we need to increase water rates, and we're going to give you a proposal to do that, and the goal there is to eliminate our negative profit situation in the water utility and bring it back into a reasonable level, and then spend the amount of funds allocated for depreciation, which is a non-cash expenditure, on improvements. We budget improvements. We have not yet priced the replacement of the 16" water main along Woodward Avenue, and then down Meadow Street. That's going to be an uncomfortable number. So we'll look at that issue. We generally replace water mains based on break history, so things rise to the top.

Commissioner Ayme: "I'd like to suggest that we move on with the agenda."

Commissioner Burgess: "Yes."

Mr. Hiscock: "Any other questions on that topic, and if there are none I'll…?"

[No remarks]

Commissioner Burgess: "No."

<u>Employee Salary Structure</u>

Mr. Hiscock: "Okay, wow. Okay, item five. You will see a very simple update of prior reports with respect to salary benefits and Employee Manual. There are no benefit changes recommended, there are no Manual report… there are no Employee Manual changes recommended, there are no job description changes recommended, there are no organizational chart changes recommended. The recommendation is fairly simple, if you read through it. It's to simply use the CPI, which is quite low, okay, and that's fine, and increase the wage structure by 1.5%. Now that sort of is a small number, and the affect on the employees and the Department is not very significant, but it leaves us being very consistent with long term practice and policy; and when the CPI goes up we raise it higher, when the CPI is this low we leave it that level. If you look on the… and you can see the two CPI's if you looked, it's 1.33% and 1.59%, and the difference between 1.33 and 1.59 is not terribly significant. If you took to Exhibit D it amounts to about $1,000 per week, $56,000 annually; considering the numbers that we're looking at, it's a fairly… it's a very small number. I'm making the recommendation that we do it that way to make sure the employees understand that we're consistent in what we do and we try to be as fair as we can. This is not a good economy. It's not a good situation, so consequently there's no way to… I don't believe there's a way we can possibly treat the employees any better, and that's sort of how we, or how I came to the recommendation, and staff prepared a report with me. I can answer any questions. There's really not much to say."

Commissioner Ramirez: "Through the Chair, I personally believe that our employees are the main foundation in our business and they work very hard. They're hard working people. The Water Department, I mean from all stages, from the office, to the Water Department, to the Electric Company. It's unbelievable when you see these people out there in the field, how hard they work, and how they're exposed to all kinds of weather, and as well all the amount of work they have to do in the office, and still I haven't heard any complaints yet. I do believe that we should be treating them with all respect, and treating them as they deserve to be, so that's my opinion, from the Chair, obviously the CO, all the way down to [laughing]… it's not a big increase, and I know a lot of there are a lot of companies having problems right not. That's the nature of the beast right now that we're dealing with."

Commissioner Borges-Lopez: "Well I motion that we increase SNEW's wage structure of 1.5% for Grade 1 to Grade 15."

Commissioner Geake: "I second it."

Commissioner Burgess: "Any discussion?"

[No remarks]

Commissioner Burgess: "All in favor?"

Commissioners simultaneously: "Aye."

Commissioner Burgess: "Opposed?"

[No opposed]

Commissioner Burgess: "Abstentions?"

[No abstentions]

Commissioner Burgess: "Okay.

Commissioner Borges-Lopez made a motion to increase SNEW's wages by 1.5% for Grade 1 through Grade 15. Commissioner Geake seconded and the motion passed with all seven commissioners present voting in favor, and none opposed.

Annual Budget Approval Schedule – Review

Mr. Hiscock: “Item six is an easy one. It’s a scheduling issue. Here’s the budget schedule, very similar to what we’ve done for every year, and it’s controlled by the Charter, controlled by the Charter that we put in place in 1995 I believe. On February 11th with have a draft budget that’s prepared by staff. It’s fairly soon. It’s less than one month away. We send it in draft form, and it is a draft form. We send it to the Commission in draft form. We have a February meeting to review and discuss the draft. We have a final budget transmitted to the Commission on the 25th, based on what we hear on the 15th. If there’s a lot of discussion and we want to talk about a lot of issues we have a March 1, optional Commission meeting to get into more detail with the District budget and the Water and Electric budget, so we have an option if things get difficult that we can spend some extra time. On March 5th the budget, as approved by the Commission, in the summary form that you see it’s two pages long, gets posted in the Hour. On March 7th… well actually, I’m sorry, the budget meeting notice is on the 5th, and the actual budget gets published on the 7th, and then on the regular meeting, March 8th… wait a minute. Okay, the regular meeting of the District Commissioners to adopt and recommend to the electors the District budget, including the general and the water fund. And then on the 9th, the next day, it’s available to the public in its final form, and the electors’ annual budget meeting is on the 15th. That’s the process. So you’ll have a few more meetings than normal during February and March.”

Public Participation

Commissioner Ayme: “That’s it? Since we have no public participation, I move to adjourn.

Commissioner Ramirez: “I second it.”

Adjournment

The meeting adjourned at 8:24 p.m.

Attest:

Candace Fox
District Clerk