SECOND TAXING DISTRICT COMMISSIONERS

Regular Meeting Minutes
June 17, 2014

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

Call To Order:

Commissioner Maria Borges-Lopez called the Regular Meeting of The Second Taxing District Commissioners to order at 7:01 p.m. on Tuesday, June 17, 2014. The meeting was held at South Norwalk Electric and Water, One State Street, Norwalk, Connecticut.

Acceptance of the Minutes:

Commissioner Borges-Lopez: "I would like to call the Regular Meeting of the Second Taxing District to order at 7:01 p.m. and move onto the item 1 on the Agenda which is the Regular Meeting Minutes of April 15, 2014 and Appeal Meeting Minutes of June 3, 2014. I would like to entertain a motion."

Consent Agenda

Commissioner Geake: "I will make a motion to accept those."

Commissioner Borges-Lopez: "Is there a second?"

Commissioner Ramirez: "One abstention please."

Commissioner Borges-Lopez: "I need a second on the…"

Commissioner Wooten-Dumas: "Second."

Commissioner Borges-Lopez: "On the meetings. All in favor?"

Commissioners Borges-Lopez, Wooten-Dumas and Geake: "Aye."

Commissioner Borges-Lopez: "Do you oppose? [Directed to Commissioner Mann]

Commissioner Mann: "Another abstention because I wasn't present at the April 15th meeting."

Commissioner Borges-Lopez: "Ok, two abstentions for the April 15th meeting and let's go into the Appeal Meeting Minutes of June 3, 2014. Can someone make a motion to accept the minutes?"

Commissioner Geake: "I will make a motion to accept the minutes."

Commissioner Borges-Lopez: "I need a second."

Commissioner Mann: "I will second it."

Commissioner Borges-Lopez: "Any abstentions? All in favor?"

Commissioners Unanimously: "Aye."

Commissioner Borges-Lopez: "I need a motion for the Consent Agenda. Do we need to do this separately John?"

Commissioner Geake: "No."

John Hiscock: "We generally do the whole Consent Agenda together unless there is one of those items that somebody would like to discuss or if they would like to discuss both that is fine."

Commissioner Ramirez: "I make a motion to accept them, both of them."

Commissioner Geake: "I will second it."

Commissioner Borges-Lopez: "All in favor? Any abstentions?"

Commissioners Unanimously: "Aye."

Commissioner Geake: "All in favor."

Commissioner Borges-Lopez: "All in favor? Ok motion past. Move to Regular Agenda. Item #3 Purchase Power…oh no I didn't say anything about Public Participation. I am sorry it was because no one was here. So, going to the Regular Meeting, Item #3."

Regular Agenda

3. Purchase Power Adjustment

John Hiscock: "I am just going to start with some very general comments and then get into the detail of the potential adjustment to the purchase power. The Purchase Power Adjustment is a mechanism that we use to modify the charge on the customer's bill, which is called Generation Services. Sometimes when you listen to the media and the press hype they call it in CL&P and UI the Standard Service Offer. That is the offer that CL&P and UI have to make to their customers for the per kilowatt hour charge for the supply of energy that comes from the third party suppliers. Neither CL&P nor UI are in the generation business anymore and SNEW isn't in the generation business anymore and actually nobody can be in the generation business anymore. We all have to buy our power from ISO-New England in the market process through the marketplace. So, when we design a rate structure, and for those of you who were here for this, it may be a little bit repetitive but we design a rate structure in an unbundled way so that the customer can see what they are paying for. And our residential customers pay a Customer Service Charge, which is the flat charge every month. Then they pay a Distribution Energy Charge. The Distribution Energy Charge is based on kilowatt hours and it comes to SNEW. It is what we use to pay for our distribution system. The poles, the wires, the repairs, replacements and then we have after that a Transmission Charge. The Transmission Charge is again in kilowatt hours and it is the charge that we collect from our customers to cover our transmission charges bill to ISO-New England. And then for some customers we have a Demand Charge but we are not going to confuse the issue with Demand tonight. That is a commercial term, for commercial customers. So, we also have a Conservation Charge, a mandated charge by the State. We collect money from customers for conservation programs. So, we essentially take every customer's money and give that money in incentives for conservation projects to individual customers. It is kind of like a let's say…it's a small charge borne by all of our customers to pay for worthy conservation projects to minimize the use of power. It is not a full payment to customers, it's a partial payment. We subsidize it. It was originally a 33% subsidy we gave and now we are up to 50% because most people don't want the subsidy unless it is a very large commercial customer who can take advantage of it because they have to put money up front. I believe Commissioner Mann is aware because you went through it with the Benjamin Franklin School and I think we did a lighting project at the school?"

Commissioner Mann: "Yes."

John Hiscock: "So that is what is in our structure. Now, the Generation Services Charge, I think again is to cover the amount of money we pay to our supplier for the power we purchase from them. Because the wholesale market goes up and down, we can't do a rate increase and a rate study every time the wholesale cost of power changes. So, in addition to the Generation Services Charge, we have an item on our bill that is called a PPA. Purchase Power Adjustment and it's a per kilowatt hour charge that we change as the wholesale price of power changes to us and for rate making and for rate increase policies. It is not a rate nor is it a rate change when you modify the cost of power to the customer by adjusting your PPA. Now, way back in February, 2012 we did a rate study and we talked about it. We had a rate analyst that was in here and we talked back and forth and we held some hearings, we held some meetings and then later that year we promulgated a rate. This part of this, some of you will remember. Were you all on the Commission in the middle of 2012, I am not sure…you were not?" [Directed at Commissioner Wooten-Dumas]

Commissioner Wooten-Dumas: "No, I wasn't."

John Hiscock: "Ok, we were concerned at that point in time, you remember we talked about the gas price being high at CMEEC because we bought gas at the wrong time and that was driving our wholesale cost of power up. So, when we did the rate study, we were concerned about keeping the Generation Charge very similar to CL&P's so that we could keep the rates below CL&P and you know that has always been our motto especially residential or our policy, to keep our rates below CL&P. So, we set a Generation Charge at…point…no we will do it this way, 8½ cents; that was the Generation Charge. Now you know you are actually paying about 16 cents per kilowatt hour on your bill because all of the other charges are there. So, for the Generation Services Charge it was 8½ cents. We set the PPA at zero because we had the ability right then and there to set the Generation Charge. You also probably remember to do that for our customers we had to subsidize that 8½ cents. You will probably recall we took about $1 million dollars out of the Competitive Trust. And that wasn't enough, so we took about $750,000 out of cash. At that point in time we were paying CMEEC 11 cents per kilowatt hour and we were only charging 8½ cents and that was why we did the subsidy. So, we did a $1,750,000 subsidy from two different sources. As the gas contracts we say wore off, but as they expired and we got to buy market rate gas, at CMEEC now the price of their power to us came down. Now, we were paying 11 cents and earlier this year we got to the point where we could actually lower the amount that we were paying to CMEEC down to 8½ cents. We were doing great. Last fall was wonderful. Gas was cheap, everything was doing wonderful and we got down to the point where no subsidy at all was required and we were doing fine. Then we had the winter and you all heard in the media that gas was short, transmission of gas went through the roof and it looks like because the transmission of gas is going to be constrained in Connecticut for a long time, there is an upward pressure on the wholesale price of power. So, to make up for that, so that we don't continue to subsidize, we are going to have to put a PPA on the bill and that is going to cause an increase in the customer charge for the Generation Charge. Now, there is some good news and there is some bad news to this. The bad news is its going up and its going to have to go up, not a lot but it is going to have to go up. The good news is that CL&P just published their approved Generation Services Charge for their standard offer as of July 1 at 9.99 cents. Now, we are at 14 cents below that right now. We are not going to be able to remain that way. So that is sort of a background of where we are and how we got there. From there, I gave you a little bit of a write up trying to explain it. Well this is really complex to try to explain in a page and a half. So, we are going to spend a little bit of time this evening trying to get everybody back up to where they were or to inform people who have not been through this before what we have to do. And I think the comments in here about the million dollars and the $750,000 they are all in here. Ok, then you got a supplemental package yesterday. And we are going to start off, you can read the memo, it doesn't really say much other than we have tested a few scenarios to try and make a determination of what works best for us. Included in your packet was a copy of our rates. Not the pretty version but the black and white version, not the one that is in color. And if you go to the first page, Rate 10 is residential service and you go right down to the middle of the page and its 8½, actually its 8.502 cents per kilowatt hour and then it goes through the other rates. It does mention the Purchase Power Adjustment and the explanation for the Purchase Power Adjustment is towards the back of the rate structure. So, on the third from the last page, half way down it defines Purchase Power Adjustment. The PPA shall be applied to all customers receiving electric service. The PPA is designed to adjust the total Generation Services Charges so that the Generation Services Charge plus the PPA equals the cost of Wholesale Power supplied to SNEW by the Wholesale provider. We didn't put CMEEC in there because conceivably we could change suppliers however unlikely that might be. So that is the definition and because the definition is in the rate that was adopted, it is therefore not considered a rate increase when you modify the PPA. So, we don't have to go through the hearing process, the notification process or any of that. And because CL&P and UI adjust theirs also without a formal rate study, of course they have to get theirs approved by the Public Utility Regulatory Authority; we get it approved by the Commission. So those are the rates. Now, the next page looks like this. And…"

Commissioner Ramirez: "I am missing pages on the first that you went through."

John Hiscock: "Don't you have that one?"

Commissioner Ramirez: "I have this, I have this and I have this memo."

John Hiscock: "It's the loose one up front or over there?"

Commissioner Geake: "It looks like he didn't get one."

Commissioner Ramirez: "No, that is it."

John Hiscock: "It is possible, sorry."

Commissioner Ramirez: "But I was wondering…"

John Hiscock: "That is the rate structure there if you could borrow that. Now, you don't have one of these either?"

Commissioner Geake: "He has one of those."

Commissioner Ramirez: "Yes that is the first one on top."

John Hiscock: "Ok you have that one. Now, the top block is the history of the Rate Stabilization Fund from when it was first put in place in this format in 2004. This is where this starts to get a little bit confusing but we have gone through Rate Stabilization quite a few times before, before we adopted the new rates in 2012. The Rate Stabilization Fund is a pot…we will call it a pot of money that sits at CMEEC, that we use to levelize rates. In the months of March, April and May power is cheap, in the months of October, November sometimes early December or sometimes late September power is cheap. We don't want to do this with the cost of power to our customers because one it gets them annoyed, you know it is like frustrating to try and compare your bill because not only do your kilowatt hours change but the rate would change. So we levelize the rate and we pay a level amount to CMEEC every month and when power is cheap they add to our Rate Stabilization Fund and when power is expensive it is taken away. Consequently, you will see the Rate Stabilization Fund in this table, it goes up and it goes down. Now, we also have the ability, and this is where it gets really interesting, to tell CMEEC what to bill us every month. I literally say to CMEEC, ok bill us at this rate and when I tell them to bill us at this rate, this number goes up and down. It's not visible to the customer. They don't see that. It is only visible to us. So, we adjust the billing amount to CMEEC to try to keep the Rate Stabilization Fund high enough to take care of the expensive power months and to the point where it does not go to zero. The best example I can give you is if you look at the line for 2014, well actually let's look at 2013, it was high at $1.8 million in November. That is because CMEEC's power bill was cheap, because the gas that was expensive, the contracts expired, we had market rate gas again and we were fine. Then the winter hit and that became a problem. You can see that between November and December it dropped by almost $300,000 and in January of 2014 it dropped a bigger number and you can see it has declined steadily for two reasons. One reason was in a good portion of 2013, we were paying them at 11 cents per kilowatt hour. We got to the point where we were building significant cash as you can see it in here. We dropped it back to 8½ cents with a goal of zeroing the Rate Stabilization Fund by June. And that has been the strategy we have always used. Well, the gas crisis occurred, the price of power went up, so the 8½ cents we were paying CMEEC didn't work and as you can see we have had a precipitous decline in the Rate Stabilization Fund. The two in yellow we highlighted because we don't have those numbers yet. They are based on the CMEEC revised budget and you can see how fast it is driving it negative. I want to say one thing about that. We don't think it will go that negative because CMEEC usually does better than the budget by a little bit. So, where does that leave us? It leaves us obviously in a situation where if we continue to pay CMEEC at 8½ cents, we are going to go negative very fast. They are going to start charging us interest because it actually works both ways. Our money that is in the Rate Stabilization Fund gains interest at CMEEC's average interest income. And the negatives, we pay interest at their average cost of short-term debt. You don't want to be paying them interest because that is certainly higher than we are making in our bank account. I am sure that you have also starting to get the understanding that when the cash is here or the cash is in our bank account, it's not the same cash, it's the same pot of cash. So it's a combination of Rate Stabilization and our regular internal cash. So as we play with these numbers CMEEC held cash, which is ours, it may go up, our cash may go down or the other way, depending on where we set the pricing. Now, the next couple of lines that are all in black are some statistical numbers that we use to figure out where we are going to go with all of this. We have got the CMEEC power bill budget in kilowatt hours for 2014 and 2015. That is the amount of kilowatt hours we are going to purchase from them each month. And then we look at the budget numbers, we look at the budget power bill and we can divide one into the other and we can figure out where the deficits are and how we should price. If you move slightly further down the page, you will see we start off with a red number for July, 2014.

That is the budgeted, up in yellow, $1,042,355. Another month later, driving it to $1,134,260 negative and if you look at it you can see the general trend across the page continues to drive it deeper negative. So, by June 15th which would be the end of the upcoming year, the one that is starting in two weeks, we would be $2 million dollars in the hole if we didn't change the billing rate. So, we then decided to look at a couple of different billing rates to CMEEC to try to accomplish the goal at the end of June, 2015 having a zero or better Rate Stabilization Fund. Well, as you go down through the page we do 8½; we do 9, 9½, 10 and 10½. And each one of them, as you can see as the price of CMEEC goes up the ending balance in Rate Stabilization obviously goes from very, very deeply negative to just above zero. Now, that looks like wow, we are going to have to raise our rate to the customer to 10½ cents. Well that is not the case and I will explain why in a minute. So first we use this tool to pick or look at what various billing rates will do for us. Oh…that is bad. I didn't bring the other spreadsheet. But we are not going to get into a decision tonight so we are going to go over this so you can think about it as we go. So, we look at this and say alright we have to decide how much we are going to pay CMEEC for power to keep the Rate Stabilization positive at the end of this fiscal year…barely positive. So if we don't raise it significantly, we are going to again go back to a subsidization of some sort. Ok, well where are we going to get the money from? Well there is a whole bunch of sources of money; we have been through this before. So put this aside for a minute and go to the page that looks like this, page 14. We are the furthest right most company in the columns. Participants are not members. Those are people we sell power to. Participants are people who have formal, ongoing contracts with us and then the other is WED, Wallingford Electric District that you know has left CMEEC. And boy if you want to see a controversy you read the Wallingford papers because their Public Utility Commission is getting skewered over this because they got an increase of $3.1 million this winter in their power bill, which they didn't have hedged or covered. So it is getting kind of interesting there. They still have very low rates. Now, if we look down you will see that we have a bunch of outstanding debt obligations. That is debt of CMEEC that is our responsibility. You can see that we have about $5.3 million that we owe CMEEC in various bonding processes. And there is one, the 2013 Series B we have none because we used a lot of money out of our Trust to pay off our entire portion of debt and that is going to come back in a minute to see what affect that was when we talked about sources of money. Now, we move down to Competitive Municipal Trust. We have $2.3 million there. We drew a million. We spent about $1.6 million out of that because we were at $6 and $7 million a year ago to wipe out our debt in 2013 Series B. That is a good thing. You can see that our debt is about the same size as the Third Taxing District and they are significantly smaller than us. We chose to fund all of the historical Millstone debt out of our Rate Stabilization Fund to drive that one to zero. But, we still have $2.3 million we can draw on. If you look across, the Third District has $741.00. Jewitt City, a very small company has a million. Norwich, which is probably four times our size, has $3.4 million and Groton the largest system has $10 million. To draw on that money is a simple letter to the CMEEC Board and you will get a response the following month. They are obligated to approve it if it is either for Rate Stabilization or a project in your system. The reason Third is at zero…not zero but at $741, they used that to build their substation on Fitch. Ok? Everybody makes different decisions clearly. And then we come down and you can see as of 4/30/14, and that is how old these numbers are, almost two months old, we had $207,000 in Rate Stabilization and you have seen the numbers, that is going to disappear quickly. So, if we want to subsidize the rate, we can take money out of the Rate Stabilization Fund…I am sorry the Connecticut Municipal Trust Fund, to keep our rate significantly below CL&P. We can keep our rate well below CL&P, significantly below CL&P or barely below CL&P. It is our choice. This is why we are doing this now, this month and thinking about it and then I will have a formal recommendation next month. Ok? Now, that is one source of money. So we can easily cover that without changing our PPA. We can take that and cover the $2 million in the hole we would be. Well, we don't want to do that. We don't want to take all of our money for that. Yes sir?

Commissioner Ramirez: "Through the Chair, if you don't mind. It is an easy way out. What happens when we run out of the money that we draw?"

John Hiscock: "Right."

Commissioner Mann: "Rates get changed."

Commissioner Ramirez: "This is…"

John Hiscock: "That is precisely why."

Commissioner Mann: "Rates go up."

John Hiscock: "I will not recommend that we subsidize the entire difference. That is really, that is just not good for the company."

Commissioner Ramirez: "Absolutely not."

John Hiscock: "I think I said it before, if we can't stay below CL&P's rates we don't need to exist. We are just wasting our customers' money but we shouldn't stay well below CL&P's by subsidizing it out of cash because eventually we are going to run out of cash and we are going to look foolish. So you have to draw a line where you can sustain the level below CL&P over the long haul and that is the goal. At one point our residential customers were paying almost 30% below CL&P. And now for a long time it has been 5% to 10% below. So, I want you to look at this document here. This is a Special Member…once a year the Members have to get together and each member has a single Delegate and I am the Delegate for SNEW and there are five of us who sit in a room and make a decision with regard to long-term financial policies at CMEEC and how it affects the systems. You can read through this at your leisure. Some of it is very easy to deal with; some of it just spells out how we vote as Members in this Member Meeting. Not our regular monthly Board Meeting. It's a Member Meeting. The Board Meeting we are acting as Board Members running CMEEC. At the Member Meeting we are acting as representatives of the utility and solely as representatives of the utility. One of the things we do at that meeting is if we have excess liquidity at CMEEC, higher than the target equity level, we have the ability to take that excess and distribute it among the companies. This has never happened before. This was the result of that contract that we spent three years, actually the three contracts and the rules that we spent three to three and one-half years negotiating, which is far superior to what we had before because none of this would have happened this way. And there are considerations, Member, customer liquidity, access to cash, rating agencies from CMEEC's perspective. There are a whole pile of things to look at. We had three options. One, maintain the excess equity in CMEEC, completely distribute the excess equity to the target level or a part of it and I guess option four is where do you put it? The most important page is page 8 and that is an issue. The reason we are going to look at this is; this is the debt-equity calculation. We all have different debt-equity ratio for each of the companies. If you look at CMEEC in general the first column, it's got equity of 23% and obviously conversely 77% of debt. If you go across the column you will see that each of the companies have certainly different debt-equity ratios because they made some decisions. I made the decision to retire more debt than the other companies. And if you look, we have the highest equity at 32% and that is where that comes back to help you out. If you don't need cash, it was a good decision to do that. When you go through all the calculations and go to the 20% level and you look at the over and the under and the maximum amount available for each of the companies, I couldn't draw down the entire 12% because I would have skewed it to the point of affecting CMEEC's overall 20%. Now, the end result of that is, everybody got to…in what is called a load ratio share, take a certain amount of the equity out if that is what the Member Delegation decided and we did decide that. We decided to take the maximum available distribution and in our case its $659,876. We further decided that we would allow the companies to make a determination as to how they wanted it. They could put it in their Rate Stabilization fund, they could have a check for cash or they could put it in the Trust. Now, it is all money. It doesn't matter what bucket it is in. It is money. So, that is a source of funds. If we do not tell them what to do with the $659,876, it will at the end of the fiscal year, which is thirty days from now…not thirty days, I mean two weeks from now, at June 30th it will be sent to our Rate Stabilization Fund. There are other things that affect our Rate Stabilization Fund to a small degree. Every Board Meeting that I go to and our representative goes to, is $500 additional because we are paid employees of a company and we can't double dip, so that money goes into this fund. But those are small compared to the overall Rate Stabilization Fund. So, there is $660,000 out of that $2 million and I am going to make a recommendation that we take this right to the Rate Stabilization Fund. But that is not the whole recommendation. That is just an idea of where we are headed. And you can look through the rest of it. There is a lot of detail. Option one goes through all of the numbers in extreme detail. You don't need to look at them. You can if you like. And if you look at this you will get a tremendous amount of information about CMEEC. The reason we looked at this was we have a whole bunch of financial metrics that we deal with. We have so many days of cash on hand. We have the debt-equity ratio. We have a bunch of other liquidity indexes that we deal with, all to keep our credit rating good. Now, CMEEC's credit rating is only AA3, which is two below us because they issue revenue bonds. We issue GO Bonds. It's automatically rated…you are rated way better if you have General Obligation because you can tax people to pay them. CMEEC can't tax anyone nor can they force us to pay any more than our power bill. So, CMEEC is viewed as an ongoing enterprise company like any other business and businesses generally have lower credit ratings than government forms even when they are financially strong. And you can look at the rest of it but it is just information. Now, I said I would get back and mention to you that the next step and for the next Board Meeting you will get something that looks like this, a lot more complex but it will spell out the PPA adjustment necessary to pay the various billing rates that we chose. So, we are actually going to take the two charts, merge them, we will modify this chart for the infusion of $660,000 in cash unless the Commission doesn't want to do that but that is what…I am going to make that recommendation. It is your decision. And the reason this gets a little confusing to everybody is; it's one thing to pay as an example 9 cents to CMEEC per kilowatt hours. But to pay 9 cents to CMEEC, we have to set a higher rate. We have to set like 9½ cents to yield the 9 cents because of two things. One, only 92% of the power we purchase; we actually bill customers for. We have transformer losses, distribution losses, maybe some bad meters here and there although our meters are all brand new so that is pretty good and 8% loss isn't bad and you know transformer losses or other minor losses. So you have to obviously divide that into the price because you need to get that to cover the kilowatt hours. The next thing is you know is the 10% discount, 10 net 10. So when we bill the customer at 9½ we don't yield 9½ because 75% of the money that comes to us is at the discounted level. Two-thirds of our customers pay before the 10th and because the big customers, it a big number for them, they all pay before the 10th. So consequently that is another thing that gets divided in to take care of this. So now you are saying wow you know, if we are going to have to pay them 9½ cents, we are going to have to collect 10 or 10¼. Well it's true except for one issue and that issue is Transmission Charge. These numbers that we pay to CMEEC include the Transmission Charge, which is about a penny and a half. We collect the Transmission Charge from our customers at another point in the bill. So, in other words, if we settle at needing 9½, we are going to take a penny and a half off and this is not going to happen and we are going to take a penny and a half off and go to 8. And that is the next thing that you will see at next month's meeting as you think about this. There are two reasons why I don't want to do this until next month and I hope you all can make the next month's meeting. We have two missing Commissioners; it is kind of hard for the five of you to get sort of hung up on setting the charge even though it is going to be a relatively small increase. And two, those numbers in yellow I think are overly high and we won't be that far negative. I can't be assured of that but I would like to have one more month under our belt. If we don't raise or PPA until next month, it will be effective for energy sold in August; we will take that into account. It is a 1/12th add or back in, so it is not a big to do. It's always the problem we have when we deal with this because the numbers that come out of CMEEC are two months behind because they get billed for power after they get it supplied to them like everybody else. You use it and then you are billed for it, so none of it matches up. We are always dealing with trued up numbers two months in arrears. So I am going to stop now and ask you if you have any questions."

Commissioner Ramirez: "Yes, I do."

John Hiscock: "If you need clarification, we can go from there."

Commissioner Ramirez: "Through the Chair. Would it be fair to ask you how much would the increase be at this point?"

John Hiscock: "We are sandwiched right now between a couple of numbers. The upper number, the absolute upper number under any circumstances is 9.99 cents and the reason for that is that is the CL&P Generation Services Charge for the next six months.

We don't want to be above them and while most of our charges are similar to theirs for transmission and distribution, they have some charges different than ours. They have DPUC things that are different than ours; they have a higher conservation rate, but not by much. It is all close but it is different. So when we come back with a recommendation I can guarantee you that the recommendation will not in the aggregate at 700 kilowatt hours a month exceed CL&P, it is not going to happen."

Commissioner Ramirez: "Make it easy."

John Hiscock: "Because that will be below CL&P."

Commissioner Ramirez: "Ok, make it easy. You are throwing all of this terminology that you are accustomed to."

John Hiscock: "Right, I do this for a living."

Commissioner Ramirez: "I have no clue, well up to a point. What is the actual rate we are looking into for the increase?"

John Hiscock: "I don't want to be held to a number, but I will tell you that the range to me appears to be somewhere between 9 cents and 9½ cents, favoring as low as I can to the 9 cents, which means the bottom line is its either a half a penny per kilowatt hour or a penny per kilowatt hour over what they are paying now and remember we are only talking about adding to the Generation Services Charge, so I am going to give you a comparison."

Commissioner Ramirez: "I would like to say something if you don't mind. Let's say we are going to do 9 cents or 9½ cents, let's put it at 9½ cents and average increase in dollars, it seems here…how much are we talking about per bill?"

John Hiscock: "I don't have that number unfortunately. I didn't bring it with me."

Commissioner Ramirez: "Ok, something perhaps you might look at it, please?"

John Hiscock: "You will, you will get that for sure because we will come back and we will chart the existing rate versus the new rate versus CL&P and UI."

Commissioner Ramirez: "And if I heard correctly, this does not…if we go to this level, that does not require us to go for a hearing?"

John Hiscock: "No, because it is a PPA adjustment, because we are merely passing through the increase in wholesale rate."

Commissioner Ramirez: "Right but one way or the other, either way it is going to come out of your pocket anyway so…"

John Hiscock: "It is true and the reason it is done this way, I will give you one more example. Some companies and I think it is risky and not very customer friendly, will offer a rate that attracts the wholesale rate and they take the risk up and down and they can make decisions. And they can do that because in CL&P's system they can go to a third party supplier and pick their rate. We cannot do that here."

Commissioner Ramirez: "And I assume even though I don't like to assume this, besides once we do this, it will stay indefinitely, permanently or…?"

John Hiscock: "It will stay barring a serious gas problem next winter and I am talking a big time serious, not just what we had this year, but worse. And we had a cold winter so that made the problem worse barring that it will stay at this rate for the year until June of 2015 when this group will go through and evaluate it again; the same exact way. So, we will hold…the rate recommendation will be designed to have enough cushion to make sure we make it through the end of the year. It will be designed to be less than CL&P. It will be designed and hopefully by a good number and it will also be designed to be competitive with the third party suppliers, the ones that are in the marketplace that are trying to sell to everybody but our customers."

Commissioner Ramirez: "How would you disseminate this information to the customers? One way or another, I think you have to be very clear and specific to tell them the reason why we are going through this."

John Hiscock: "We will do both a flyer in the bill and a press release. And there is a problem with doing it this way because the decision that you are going to make is going to be the beginning of the third week of July and as of August 1st it is going to affect their bill. Now, it is not obviously retroactive when that happens but a decision…we need to get the information out quickly at that point."

Commissioner Ramirez: "So, the question that I see that will arise will be how come the public does not have a right to say anything pertaining to this rate?"

John Hiscock: "Because quite frankly the Charter says that you set the rates. It does not say that the public sets the rates; it says you set the rates. If it was a rate increase you would have to hold a hearing but because of the way we define our rates and everybody defines rates exactly the same, it is not a rate increase because we don't generate the power, we are captive to the marketplace and we have no choice other than to pay market rates."

Commissioner Mann: "We have no control."

Commissioner Ramirez: "Well we have to be a little specific when you explain to them the reason why otherwise it would look like hey the Commission decided to bring in that 10 cents more or 9 cents more. So, let's please be very sensitive and clear up to a point if it is possible to make sure that the public knows that this is not up to the Commissioners. It is because there is a need and so on and so forth."

John Hiscock: "It's a reaction to the market. And to give you an order of magnitude and I don't want to scare anybody, our all in price right now at 1,000 kilowatt a month is 15 cents, so we are talking about a ½ cent on 15; all in for everything."

Commissioner Ramirez: "Going a little too far or perhaps this question is going to far…"

John Hiscock: "It is about 3%."

Commissioner Ramirez: "No, when we get into full operation with the new plant, would it be fair to ask you if we might be facing similar problems that we are facing right now or would we be in better shape than now?"

John Hiscock: "No, not at all and in fact, we are still in the position that the new substation because we no longer have to pay CL&P for the old transmission lines that were supplying us, the savings covers the entire bond issue, principle and interest and our cash flow is actually better. So the cash flow is less."

Commissioner Ramirez: "That was the reason why I was asking that."

John Hiscock: "It is interesting to note that the big mass of electro equipment down there and very complex wiring and controls is actually a money saver; that is rare."

Commissioner Ramirez: "It has to be one of the reasons why I think we engaged in such a project."

John Hiscock: "That is why we did it. That and reliability of course."

Commissioner Ramirez: "Ok, right."

Commissioner Borges-Lopez: "Any other questions from any of the other Commissioners? So, no action needed?"

John Hiscock: "No, no action needed. If you have any questions, if you want any explanation, I would be happy to do it by phone, email, in person, anything that confuses you, any explanation you want because I want you to understand it because we are dealing with people's bills."

Commissioner Borges-Lopez: "Ok, so we will move on to Item #4, which is the OPEB Trust Advisory Committee results."

4. OPEB Trust Advisory Committee Results

John Hiscock: "Item 4 is simply the OPEB Trust Advisory Committee. The three members of the Commission have met with the Trustee/Financial Advisor after a discussion there was a draft prepared. The draft was presented to the group and looked at. It wasn't…I will characterize it as there was some concern specified by an individual member of that group. Two members accepted the Statement of Investment Policy and Objectives Guidelines and one member was a little bit concerned with respect to the international portion of it. We sort of did a consensus decision here. It was like two to one, so we essentially said meeting with the financial advisor again to discuss back and forth over the level of international investments probably wouldn't be productive, so I made the decision to simply provide the document to the full Commission who has to approve it or reject it obviously with that caveat that while it was generally approved by all three, the level of international investment was questioned by one board member who thought it…one Advisory Committee Member who thought it was a little bit more risky and it probably is. It is that risk/reward relationship. The higher the risk, the better the reward but you have to take prudent risk. So that is where we are."

Commissioner Ramirez: "We all take risks in our life but it depends also the risk that you might have taken. They are small and they are big. I have a little concern with this. I kind of agree with the Commissioner that we appointed. Do you have a full detail because I didn't have enough time based on the fact of the other issues but from what I read yes there seems to be a little bit of a risk. My vote will reflect that at the end so…"

John Hiscock: "Personally, I would say to you that this is why we hire professional investment advisors and I certainly would not want to be making these decisions."

[Laughter]

Commissioner Mann: "You are absolutely right."

Commissioner Ramirez: "Absolutely."

John Hiscock: "You know we have somebody who is well known, well versed in a large organization, Webster Bank is pretty big. They do a lot of trust work, they do a lot pension work and I am sort of like ok I read it, I look at it, I understand it. However, could I critique it? Not effectively, no. I might look at the document and say ok I know that is a little riskier than this, this is this, this is that, but the reason we went to a trust and I think we talked about this when we first started it, municipal money in Connecticut is only allowed to be invested in securities of the US Government, securities of the State of Connecticut, securities of other municipalities and banks that meet the State guidelines for municipal assets because they are virtually guaranteed and consequently we make virtually nothing. This allows a standard investment pension style debt equity thing because it's managed for a very long timeframe as opposed to the banking which is like here."

Commissioner Ramirez: "Through the Chair if you don't mind. Specifically, this is in reference to, as to respect to the Commissioner who presented the serious concern, that I kind of somehow share, do we need to approve this document this evening or can we table and perhaps allow the Commissioner also to express her feelings pertaining to this?"

John Hiscock: "Yes, you certainly can discuss that particular issue. The emails are in there and you know what it is."

Commissioner Ramirez: "Besides emails, it's also how you express yourself. It's different one way. You are not going to go into details and all different explanations in email unless you have a lot of time on your hands."

John Hiscock: "Yes, absolutely."

Commissioner Ramirez: "This is very brief. So that doesn't allow me to really think deeply regarding his/her thoughts and what it is all about."

John Hiscock: "There is no real absolute need to approve this document this evening. I do remember that the investment advisor asked us to do a certain thing because after this is done and accepted by the Commission, the investment advisor comes in and explains their performance in relationship to this document. And the only thing that we got out of it was the investment advisor says please do not hand me $900,000 more in cash because I can't deal with it in the terms of this because it took several months to get it in the right. So, what would we do and it's not a problem, what would we do? We would wait until next month, if it got approved next month or modified next month or sent back for more work, we would wait until it was approved. The financial advisor would meet with the Committee and check the performance and then after that was done, would give them the extra $900,000 in cash so that we could have a guideline. That is how we would do it. So if it was not approved this evening, that would be the procedure we would use."

Commissioner Ramirez: "The reason I don't feel comfortable to hurry up this matter because I don't think that we are in a hurry and we are talking about a serious investment here so, at least from my point of view."

John Hiscock: "$800,000 yes."

Commissioner Ramirez: "Yes and even though it is not my money but it's the people's money and we must be very conscientious of the type of relationship we are going to get into."

Commissioner Mann: "Question, through the Chair? If I am looking at page 3 correctly, the item that we have in question is the International-Developed, 0% to 20%; International-Emerging, 0% to 10-%, which only compromises 30% of the investment. Do I have that right, technically?"

John Hiscock: "Well, it's a subset of the Equity Group and the Equity Group is between 55% and 75%."

Commissioner Mann: "I recognize that, but the rest of them are in U.S."

John Hiscock: "Right, that is correct."

Commissioner Mann: "Ok, then I don't have a problem with it. Alright I am good."

Commissioner Geake: "Through the Chair. I am the one that had a lot of questions about it. I have done a lot of thinking, talking and looking and of course all of the emails that we got. I am happy with what we came up with based on everything that we went through and crafted after looking at it. So, I am happy with it."

Commissioner Borges-Lopez: "You are happy with everything?"

Commissioner Geake: "Yes, just for the record."

Commissioner Mann: "For the record, I am comfortable with voting on it at this point."

Commissioner Ramirez: "What would be the 30% of $800,000? I am drawing a blank with my math right now."

Commissioner Borges-Lopez: "240,000."

Commissioner Ramirez: "$140,000."

Commissioner Borges-Lopez: "240,000."

Commissioner Ramirez: "I am sorry?"

Commissioner Borges-Lopez: "Thirty percent of $800,000 is $240,000."

John Hiscock: "$240,000."

Commissioner Borges-Lopez: "$240,000."

Commissioner Ramirez: "$240,000."

John Hiscock: "And that is the upper limit obviously."

Commissioner Geake: "The lower limit could be nothing."

Commissioner Ramirez: "So, Commissioner Mann, you feel comfortable to gamble to $240,000 just like that?"

Commissioner Mann: "Yes I am. I think that is why we hire investment advisors. I recognize that there are some risks when you start going international, but I think that I am feeling comfortable that they recognize what our funds are, what we are trying to do and they are not going to put us in anything that is going to jeopardize us really losing our money."

Commissioner Ramirez: "Well, I have a tendency to be a little more conservative. Thirty percent to me on $240,000 is a lot of money."

Commissioner Mann: “Now, if I am not mistaking it can be from 0% to 20%. You have to read it. I mean it is not saying that they are going to commit 30%. We have to see how they are going to allocate it before we kind of make…ok.”

John Hiscock: “Ok, I think we are reading the chart a little bit and I am not quite sure but I want to make sure. The equity portion, which is the top, the maximum is 75% and you have the subset below that. Thirty percent of 75% I believe is the maximum which it puts it around $200,000 roughly without doing the math.”

Commissioner Borges-Lopez: “So, are there anymore discussions? If not, I would like to put it on the table for a motion to accept the OPEB Trust as presented.”

Commissioner Geake: “I will make a motion to accept it as presented.”

Commissioner Borges-Lopez: “We need a second.”

Commissioner Mann: “I will second it.”

Commissioner Ramirez: “I am for the record voting no. Because I do not feel comfortable at this point based on what was presented to me on gambling on specific money without further details because I believe it is more risky. Maybe I misunderstood this, but that is my vote. I will say no.”

Commissioner Borges-Lopez: “Any abstentions? Those in favor?”

Commissioners Borges-Lopez, Mann and Geake: “Aye.”

Commissioner Borges-Lopez: “The motion cleared. I believe we are at the last item on the Agenda, adjournment. Motion to adjourn?”

Commissioner Mann: “Motion to adjourn.”

Commissioner Ramirez: “Motion to adjourn sounds good.”

Commissioner Borges-Lopez: “Second?”

Commissioner Geake: “Second.”

Commissioner Borges-Lopez: “All in favor?”

Commissioners Unanimously: “Aye.”

Adjournment

The meeting adjourned at 8:05 p.m.

Attest:
Lisa Roland
District Clerk