CMEEC Board of Directors' Meeting

August 22, 2013

MINUTES

The Connecticut Municipal Electric Energy Cooperative ("CMEEC") Board of Directors (referred to hereafter sometimes as the "Board" or "BOD") conducted a regular meeting of the Board on Thursday, August 22, 2013, at CMEEC's offices. The meeting was legally noticed, in compliance with Connecticut State Law, and all proceedings and actions hereinafter recorded occurred during the publicly open portions of the meeting.

Chairman Hiscock called the meeting to order at 9:36 a.m. and determined a quorum present.

The following Directors participated:

Jewett City –Kenneth Sullivan, Richard Throwe, Louis Demicco
Groton – Edward DeMuzzio, David Collard, Paul Yatcko
Norwich – James Sullivan, Steve Sinko
East Norwalk – David Brown, James Smith, Charles Yost
South Norwalk – John Hiscock, Mark Harris, Scott Whittier

The following staff and guests participated:
Drew Rankin, CMEEC, Chief Executive Officer
Edward Pryor, CMEEC, Chief Financial Officer
Philip Sussler, CMEEC, General Counsel
Brian Forshaw, CMEEC, Director, Power Supply
Thomas Solinsky, CMEEC, Director, Asset Management
Gabriel Stern, CMEEC, Director, Strategic Planning
Michael Cassella, CMEEC, Director, Customer Program Management
Michael Cyr, CMEEC, Power Marketer
Kristen Wood, CMEEC, Office and Executive Specialist
David Mullett, Vermont Public Power Supply Authority ("VPPSA")

Mrs. Wood recorded

Standard Action Items:

(A) Approval of the Minutes of the CMEEC July 25, 2013 Board of Directors' Meeting.

A motion was made by Director Paul Yatcko, seconded by Director David Brown to approve the Minutes of the July 25, 2013 CMEEC Board of Directors' Meeting.

Vote Passed. Approved by vote of those present (Director Yatcko abstained). (13-47)

Specific Agenda Items

(B) Review: Objective(s) Summary Report

Mr. Rankin discussed the Dashboard Summary of CMEEC's performance metrics in order to provide a succinct summary of the more comprehensive and detailed information supporting the Dashboard Summary also provided in the Board package. This report is a summary of the key Objectives and associated metrics defining the financial and operating health of CMEEC for the previous month, year-to-date, and year-end projections.

Mr. Rankin reviewed the status of the Objectives including Regional Competitiveness, Customer Fulfillment, Financial Stability, and Maximize Asset Value. While reviewing Regional Competitiveness, Mr. Rankin pointed out that performance was not satisfactory in June. A comparison to CL&P's benchmark rates "With Investments" revealed a deviation of (18%), and "Without Investments" (15%). He noted that last month's performance was better due to the booking of revenues from the sale of renewable energy credits ("RECs"). The REC sale credit applied in May, versus the budgeted month of June, and, as a result of the subsequent reversal, adversely impacted June. Mr. Rankin discussed that the Year to Date ("YTD") trend was a (14%) deviation "with investments" and (15%) deviation "without investments" against the benchmarks. The projected end of year performance of actual to target was greater than a 2.5% positive variance "with investments" due to the CMEEC project(s) global refinancing, despite the higher power supply cost realized in January and February. The projected end of year "without investments" view is projected as greater than a a 2.5% negative variance, due to the high power supply experienced costs in January and February and CL&P deferral in incremental cost relief by PURA.

Mr. Rankin reporting with respect to the Customer Fulfillment Objective metric, that last month's "All-In" Cost "with Investments" was negative due to the fact the CMEEC received credits in May, versus June, which was projected. The "All-In" Cost "without investments" was also negative. The adverse cost impacts resulting from the interstate pipeline constraints, affecting particularly the Algonquin system, is still affecting the results.

Mr. Rankin updated the Board on the Financial Stability Objective. Mr. Rankin stated that it was an excellent month and that CMEEC continued over performance against the targets and requirements. CMEEC's Current Ratio is 2.14 for the prior completed reporting month (June) and the YTD is 2.2. He explained the Equity to Debt ratio is now at 23% (June) and the YTD is 21%. The days cash on hand still remains strong due to the utilization of trust funds and the effect of the refinancing. The Net A&G for the prior completed reporting month (June) is 12% under budget and the YTD Net A&G is 24% under budget. Mr. Rankin elaborated by explaining that CMEEC continues aggressive expense optimization while reinforcing prudent practice in all aspects of operation.

Mr. Rankin continued by discussing the Maximize Asset Value Objective. He noted that the Pierce Project had a $381,388 positive variance due primarily to the improvement in locational forward capacity market revenues and the effect of the refinancing. The Market DG project has been removed from the market, however, there are still costs involved in completing the project's phase-out. It still continues to be a positive variance and the Project's generating units eventually will be sold. Mr. Rankin also explained the MicroGen project (formally titled the “50 and 5” Project) had a good month. It had a $311,782 positive variance and the YTD has an approximate $500,000 positive variance. The Transmission Project #1 has a $152,931 positive variance and the outlook for this project continues to improve. The CMEEC Margin has a 213% positive variance and also continues to have a positive outlook.

After Mr. Rankin finished his review of the Objectives, he opened the discussion for questions. Director James Sullivan inquired generally about the Regional Competitiveness Objectives and the context for these metrics when compared to Connecticut Light and Power (CL&P). Mr. Rankin responded that CMEEC’s wholesale power supply component is compared to equivalent services provided by CL& P as well as multiple other alternative competitive suppliers. Mr. Rankin also noted that staff understands that CL&P under-collected in January and February and that staff had expected PURA to give CL&P favorable treatment with respect to these amounts. PURA, in fact, did not do this; as a result the relative increase in CL&P’s offerings did not occur as anticipated and the projection has been pushed back indefinitely. This makes CMEEC’s estimates conservative and the anticipated adjustment has not been included in CMEEC’s projections.

Director Edward DeMuzzio inquired about marketing materials which he has received from competitive power suppliers that purport to guarantee low rates for a year. He inquired if there is a development in the market that shows that rates for generation services are going to remain flat through next year. Mr. Forshaw clarified that CMEEC tracks every month the offerings from competitive suppliers, in part by reviewing reported information on the State and PURA websites. In developing the disclosure and reports for the Board, staff takes the minimum pricing proposals and that information is what is incorporated into the line graphs which staff includes in the Board package. Director Paul Yatcko commented that he is aware that some companies produce pamphlets like those described because they are making a bet that prices in the energy market are going down. They could be taking a risk losing money at the outset which they anticipate offsetting in different markets. It is their way of gaining customers and market share. Mr. Forshaw agreed with Director Yatcko and pointed out that staff tries to base its projections based on the most reasonable outcomes and adjust things as they evolve over time.

(C) Resolution: TTD Trust Fund Withdrawal

Mr. Pryor reviewed the proposed Resolution for the Board. He explained that the Third Taxing District (“TTD”) has made a request for use of funds from its account held pursuant to the Municipal Competitive Trust. He reviewed that TTD wanted to use $2.2 Million for the purpose of investing in the Fitch Street Substation. Mr. Pryor also indicated that, pursuant to the Trust Instrument governing the use of the Trust Fund, the CMEEC Board needs to approve the Resolution. The CMEEC staff stated the request is a permissible use of funds under the Trust Instrument and recommends approval by the Board. He also expressed that TTD anticipates saving approximately $500,000 a year following commercial operation of the substation and that this is a beneficial use of the funds. The anticipated commercial operation date of the substation is December 1, 2013.

Director Edward DeMuzzio questioned if the total investment into the Substation will be the $2.2 million which is the subject of the request to the Trust. Director James Smith summarized that the total investment in the substation is about $7 million. TTD has additional internal funds that have been directed to the project to date and that TTD needs the additional $2.2 million to finish the project.

A motion was made by Director James Sullivan, seconded by Director Kenneth Sullivan to adopt Resolution 13-48 approving the Third Taxing District’s Use of Trust Funds.

Vote Passed, Unanimous (13-48)

(D) Board Committee Schedule Review

Mr. Rankin briefly outlined the CMEEC Board Committee and Key Deliverables schedule to the Board. He assured the Board that the dates were not firm at this point, but were put in place as target dates to begin setting up meetings for the committees to discuss key topics.

Mr. Rankin introduced the Risk Management Committee schedule. He stressed it is anticipated that the Committee will meet five (5) times in the next few months to discuss new items that need to be refined and finalized. One item is the Risk Management Policy, which is scheduled to be finalized by the Risk Management Committee and Board approved by or in December.

Mr. Rankin called attention to the Budget and Finance Committee's initial review of the TRANSCO and CMEEC Budget. He said that the Board is scheduled to approve the TRANSCO budget in October and the CMEEC budget in November. Mr. Rankin also discussed the Governance Committee's schedule and their goal to review Officers and Committee membership for the TRANSCO vote in October and CMEEC's vote in November.

(E) July Peak Hour "Financial Mass Balance"

Mr. Rankin introduced the presentation entitled "Example of Energy Market Settlement" in Power Point format He described the presentation as providing a detailed analysis of the variable cost to serve load and the resulting benefits from deployment of CMEEC's resources in the single hour peak experienced during 2013.

Mr. Forshaw explained to the Board that the presentation is only one part of the story, and that the fixed costs associated with CMEEC's resources was not reflected in the analysis. Close analysis of the variable costs incurred and resulting benefits, however, is helpful in analyzing the basis for CMEEC's procurement strategies and the risks it is designed to mitigate. He continued by elaborating on the background of the report. Prior to and immediately following the analyzed peak hour, there was a heat wave experienced over a continuous five (5) to six (6) day period. During this period, the region experienced extreme energy prices and loads continued to build. Mr. Forshaw stated that staff analyzed specifically and in detail July 19, hour ending 14. In the presentation there are graphs that show the ISO Loads (MW), Real Time (RT) LMPs, and Day Ahead (DA) LMPs. He explained the charts provide evidence that on July 19th many generators started to have issues adversely affecting their operation and availability and in these hours the region, in aggregate, began to experience a reduction in resources. Mr. Forshaw noted that ISO-NE invoked emergency procedure (OP #4) to cover generation outages and transmission constraints. The Pierce Project was committed in the DA market pursuant to ISO-NE dispatch and ISO-NE market procedures, which was very unusual, and had it not been, CMEEC would have been compensated at the RT cost of $797 / MWh (assuming actual Pierce dispatch in RT) versus the $194 / MWh paid to Pierce due to its commitment in the DA market.

Mr. Forshaw outlined the cost to load for July 19th. The total CMEEC load was 310.9 MW, which only reflects the load of CMEEC Rate 9 Customers. He explained CMEEC only submitted in DA settlement a smaller amount. Because actual loads were 310.9, the deviation was $20,579. Mr. Forshaw stated that staff tries to get the deviation to be as small as possible by watching the deviation every hour so it can make the best projections.

Mr. Forshaw moved on to introduce the "Impact of Portfolio Management Strategies on CMEEC Energy Cost" graph and the "Net Benefit from Resources" chart. He briefly summarized that this graph was created to show the various resources CMEEC has to serve its customers and what was the resulting net benefit derived from these resources. He pointed out that when all the resources are analyzed on an aggregate basis, the net cost to load during the peak hour was approximately $7,000. CMEEC took the data from the generation resources and compiles this into the Net Benefit chart. He acknowledged that the revenues and or avoided costs were greater and the bottom line is the benefit of all resources resulted in costs for power supply load decreasing by $69,627 for this hour.

Director James Sullivan commented that on this particular day and hour when an organization is most likely to be wrong, CMEEC's planning and actions still resulted in savings to the member systems. He expressed that this is a leading example of why CMEEC expends great effort in designing and procuring power supply and is evidence of the benefits resulting to the members from this work. Mr. Rankin replied that CMEEC applied all of its tools to mitigate the worst case scenarios. CMEEC's strategic advantage is in continuous and constant effort to improve the active, real time management of power supply, particularly in "stress" situations like those analyzed here.

Mr. Forshaw continued with the presentation, describing in an additional chart how unusual this is for the Connecticut Load Zone. He explained that if the experience in the DA market is excluded, then it is not very unusual since the summer period is always volatile but the RT price excursions during the peak hour were significantly higher than normal. Overall, however, over an extended time-frame for analysis this was not very unusual for the RT market. Director Hiscock would like in future analyses to see the price history over broader periods versus the reported average, maximum, and minimum prices.

(F) Special Guest: David Mullet, VPPSA

Mr. Rankin introduced David Mullet from Vermont Public Power Supply Authority ("VPPSA"). He spoke about how VPPSA and CMEEC have a similar value systems and structure. He would like the two entities to work closely together and look at what each has that could benefit the other company. Mr. Rankin expressed that he has had the privilege to sit in with and meet the VPPSA's Board. He was also given the opportunity to look at their tools and work.

Mr. Mullet described his professional background, which includes doing legal and permitting work for VPPSA for many years. As his career progressed, he was asked to be in-house counsel and then to serve as CEO. He further explained that VPPSA started in 1979 and that its membership is limited to Vermont municipal electric utilities and cooperatives. VPPSA has three major utility operating assets which consist of ownership entitlements in the McNeil Generating Station, the Highgate Transmission Interconnection Facility, which is a 225 MW converter station, and the Swanton Peaking Plant which is a 40 MW peaking plant. Mr. Mullet noted that VPPSA's membership was diverse and geographically wide-spread across the State.

Mr. Mullet also noted a key area of interest to VPPSA's and has motivated further discussions with CMEEC. VPPSA's (and VPPSA's members) structure under Vermont law places them under rate regulation by the Public Service Board; as a result there is an emphasis placed on rate stability. VPPSA tries to lock in as much of its power supply costs as prudent to mitigate rates from going up and forcing rate filing reviews.

After Mr. Mullet's presentation, the Board began a discussion with questions and comments. Mr. Mullet asked the Board for suggestions for increasing interest and effectiveness in Legislative activity. In describing the circumstances in Connecticut, Mr. Rankin noted that at the State level there has been periodic interest in the experience of the municipal electric utilities and CMEEC. Several of the CMEEC members have their own legislative lobbyists to address retail level concerns. CMEEC, in the last few years, has moved to more of a passive or reactive position regarding legislative initiatives. CMEEC's general approach has been to monitor for things that will materially impact CMEEC as a wholesale electric market participant, and the more broad MEU interests, and to respond to such initiatives as appropriate. CMEEC is continuously reviewing its approach based on developments. Director James Sullivan noted that the relationships of trust and respect that the municipal electric systems and CMEEC have built over years are critically important when it comes to achieving a successful outcome.

Mr. Mullet inquired if getting people together in one location helped them better focus on Joint Action and coming to decision in a more effective manner. In response to Mr. Mullet's inquiry, Chairman Hiscock agreed that this was true: having time to sit and discuss topics facilitated making decisions. He also noted that decision-making at the Board of Directors level is aided by talking informally first.

Mr. Rankin inquired further of Mr. Mullet about his comment on rate stabilization earlier in the discussion. Mr. Rankin added that CMEEC saw the market and economy drop and wondered how VPPSA had fared in this environment with its structure of locking in power supply costs in advance as much as it prudently can. Mr. Mullet replied that it was more expensive when compared with short-run measures of spot market costs, but it was stable. The stability helped the rates to not increase.

Mr. Sussler questioned Mr. Mullet about VPPSA's views regarding FERC transmission developments. Mr. Mullet explained that the transmission cost increases are an issue.

Mr. Mullet also noted that VPPSA had faced challenges when it moved to true operations with the start-up and operation of its peaking generating facility, because of the greater staffing demands of operating assets. Initially, there had been possibly a less than full understanding of these requirements. Over time and with effort, VPPSA met this challenge; they now have full time operations staff and have learned how to optimize the asset.

(G) Renaming of the 50 & 5 Project to the MicroGen Project.

Mr. Rankin confirmed to the Board the decision to rename the 50 & 5 Project as the MicroGen Project. He explained the basis is the original naming construct had a specific meaning relative to capacity and time, and that MicroGen better defines its functional role. Director Harris suggested adopting nomenclature on a transition basis, where appropriate, to show that the MicroGen Project was formally referred to as the 50 & 5 Project.

A motion was made by Director Mark Harris, seconded by Director Louis Demicco, to adjourn the meeting.

Vote Passed. Unanimous. (13-49).

There being no further matters to be discussed, the meeting was adjourned at 11:51 a.m.

Respectfully submitted,

Philip L. Sussler
2nd Assistant Secretary

CONNECTICUT MUNICIPAL ELECTRIC ENERGY COOPERATIVE

BOARD OF DIRECTORS'

RESOLUTION 13-48

Resolution Approving the Third Taxing District's Request for Use of funds from its Account held pursuant to the Municipal Competitive Trust

WHEREAS, Third Taxing District has submitted a request pursuant to the CMEEC Municipal Competitive Trust, created as of March 25, 2003 (the "MCT") to transfer an amount of $2.2 million from its Account, as such term is defined by the MCT, held under the MCT.

WHEREAS, Third Taxing District has determined that this use of funds currently held for its account in the MCT will be used to pay town costs associated with the Fitch Street Substation.

WHEREAS, Resolution 03-07 of the CMEEC Board of Directors (the "Board") requires that the Board approve or disapprove any proposed use of the funds being requested for transfer from the MCT; and,

WHEREAS, it has been determined that the proposed use of the funds is consistent with Resolution 03-07 and the terms of the MCT for use of such funds.

NOW THEREFORE BE IT RESOLVED, that the Board does hereby approve the request of the Third Taxing District for the transfer from and use of funds from the Third Taxing District's Account held pursuant to the MCT as previously described in this resolution.

Kenneth Sullivan
Secretary

August 22, 2013