CMEEC Board of Directors' Regular Meeting

August 28, 2014

MINUTES

The Board of Directors (referred to hereafter as the "Board" or the "BOD") of the Connecticut Municipal Electric Energy Cooperative ("CMEEC") conducted a regular meeting of the Board on August 28, 2014 at the River Highlands Country Club in Cromwell, CT. 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 J. Sullivan called the meeting to order at 9:41 A.M. and determined that a quorum was present.

<u>The following Member Representatives/Directors participated:</u>

Groton – Edward DeMuzzio, Paul Yatcko (by telephone), David Collard (by telephone)
Jewett City – Louis Demicco, Kenneth Sullivan
Norwich – John Bilda, James Sullivan, Stephen Sinko
East Norwalk – James Smith
South Norwalk – John Hiscock (by telephone), Mark Harris (by telephone), Scott Whittier

<u>The following individuals from CMEEC management and staff participated:</u>

Drew Rankin, CMEEC, Chief Executive Officer
Michael Cassella, CMEEC, Director Customer Programs
Justin Connell, CMEEC, Director, Portfolio Management
Brian Forshaw, CMEEC, Chief Regulatory and Risk Officer
Michael Rall, CMEEC, Director, Asset Management
Philip Sussler, CMEEC General Counsel

<u>Guests and other participants</u>
Alison Rossi, Atrion Networking Corporation
Anthony Kinney, Atrion Networking Corporation

Mr. Sussler recorded.

__Standard Action Items__.

(A) Approval of the minutes of the CMEEC Board of Directors' regular meeting of July 24, 2014,

A motion was made by Director Demicco, seconded by Director DeMuzzio to approve the minutes of the July 24, 2014 CMEEC BOD regular meeting.

Vote passed with all voting aye (Director Yatcko abstaining) (14-49)

(B) Approval of the minutes of the CMEEC Board of Directors' special meeting of August 11, 2014.

A motion was made by Director K. Sullivan, seconded by Director J. Smith to approve the minutes of the August 11, 2014 CMEEC BOD special meeting.

Voted passed with all voting aye (Director Yatcko abstaining) (14-50)

__Specific Action Items__

A motion was made by Director Bilda, seconded by DeMuzzio to change the meeting agenda to include a discussion of certain matters sponsored by the Governance Committee for discussion in executive session.

Vote passed unanimously (14-51)

(C) Objective Summary Review.

Mr. Rankin provided a discussion of the summary report on CMEEC operations and metrics. Mr. Rankin noted that, during the most recent month in the report, June, 2014, CMEEC experienced excellent results, with some exceptions as noted in the Report. Under the regional competitiveness metric, for the reporting month, CMEEC achieved a -39% with investments and 38% without investment, a positive variance against the target 20% of 95% and 90%, respectively for each metric. Year to date ("YTD") for these metrics shows a negative variance of 5%, primarily due to the challenging winter 2013-2014 experience. The projected end of year ("EOY") measure of these metrics is anticipated to be better than target at 26/24% (versus target of 20%) and this better performance is projected over the next three years, on average, to stay within this range.

Mr. Rankin continued with a summary of the customer fulfillment metric, noting that the all-in cost with investments, in part reflecting the timing effects of a transmission rate credit was $73/MWh with investments and $76/MWh without investments compared to $89/$92 targets, reflecting a favorable variance of 19/17% respectively. The EOY projection remains approximately 10% less favorable than target, again reflecting primarily the adverse effects of the past winter. CMEEC is undertaking multiple efforts to mitigate this adverse impact. In addition, it does not include the anticipated favorable impact of CMEEC margin, which will be increased due to the recent successful procurement of electric load through the City of Lowell, MA municipal aggregation supplied to the Hampshire Council of Governments ("HCOG"), which is anticipated to improve margin for 2014 by $0.25/MWh.

Director DeMuzzio inquired whether if the customer fulfillment targets were met, would that improve the regional competitiveness metrics (currently projected for EOY at 26/24%). Mr. Rankin responded, stating that if the customer fulfillment targets were met, that would improve the regional competitiveness targets by 8-9%, but that this is not currently anticipated to happen. Director Harris inquired regarding the results noted for Transmission Project no. 1, showing a negative actual value for June and target for YTD. Mr. Rankin responded by noting that this reflects the timing of the revenue credits and true-ups in the transmission rates, as previously noted, and as further documented at page 165 of the Board package.

Mr. Rankin next discussed the financial stability metrics, noting that CMEEC remained in compliance with the enterprise risk management policy ("ERMP"). He indicated that CMEEC management and staff will be reviewing with the risk management committee ("RMC") and the Board proposals to modify the ERMP to take into account the lessons learned from last winter and to allow for more optimal and timely procurement of power supply positions on a prospective basis and in advance of each upcoming winter period.

Mr. Rankin noted that the current ratio and equity to debt metrics were each positive and trending positive due to continued building of equity through debt service coverage payments. He noted that the days cash on hand ("DCOH") reflected a downward trend, but this reflects the distribution of equity decided by the Members. Mr. Rankin reported that Mr. Pryor is in the process of making the arrangements to transfer to the individual members' accounts the required amounts with interest. The DCOH for the end of the year is projected to be further impacted due to the acquisition of the HCOG-Lowell electric load.

Mr. Rankin then described the maximize asset value metrics, noting that the Pierce Project had an exceptional month, improving substantially over the YTD performance, and with continued favorable results projected to EOY, due to anticipated improvements in the locational forward reserve ("LFR") auction revenues received by the project. The Market DG project, consisting of the generating unit at the Norwich waste-water treatment plant ("WWTP") had a strong month. The MicroGen project also a good month in June, but was adversely impacted by the transmission rate credit, which diminished the cost avoidance net benefit from the project. YTD results for this project has also been adversely impacted by a missed peak period performance in April and only partial operation during the June peak and continued negative spark spread with respect to operation of the resources in the project. Director Yatcko inquired about the mechanics of the operation and financial performance of the project. Mr. Rankin and Mr. Rall explained the project's mechanics, which entail accurate projection of the peak hours during a month, and operation at full capacity during the full hour of the experienced peak. On the operational side, the limits sometimes can be the size of the local load, which must be sufficient to support the full output of the resources, and timely projection of the peak so that full capacity can be in operation during the full hour of the peak. Local load and timely dispatch can become limiting factors. To date for the project, CMEEC's performance has been very good, with only three missed months during four years of operations. It also highlights the sensitivity of the results and the continued need for active and pro-active management of the project. The targets for the project utilized in the summary metrics report derived from CMEEC's budgeting were based on CMEEC's prior excellent performance, without employing an allowance for performance variations, which may need to be adjusted within reasonable parameters based on further experience with the project. Mr. Rankin noted that this possibly could be a subject for further review by the budget and finance committee ("B&F") in development of the budget projection under this metric for 2015. Director DeMuzzio inquired about action which CMEEC is considering to improve the project's performance. Mr. Rankin responded that CMEEC staff is engaged in a continuous review of procedures to try to mitigate any failures in performance, including reviewing and taking further steps to assure that the engines start successfully and run at full capacity and in the forecasting of peak hours and the number of hours of operation in light of the negative spark spread typically experienced with the project's generating resources. Mr. Connell noted that CMEEC's portfolio management group ("PMG") is looking more closely at the cause and effect surrounding the level of load during and causing the peak hour MW. Mr. Rall noted that the asset management group ("AMG") is reviewing more closely additional steps that can be taken to achieve full capacity of the generating resources. A particular area of anticipated improvement is removing the current state air emissions permit limit based on the fuel input for the generating units, which was originally developed based on the units' manufacturers' equipment specifications, which has proven too constraining based on actual operations. Staff is also looking into additional steps for assuring successful starts and having sufficient load to displace. Additional efforts entail review of operation and maintenance practices, including breaker operation procedure. The PMG is also looking at refining the load forecasting, and better quantifying the inclusion of New Hampshire loads. Mr. Forshaw noted that new roof-top solar electric generation is complicating load forecasting, particularly during the summer annual peak. Currently, the annual peak is anticipated to be the monthly peak in July, given experience to date in August. The Backus microgrid capacity additions to the MicroGen project, in testing mode under the air emissions permit, now are available for the project, but began running in August and were not available in July.

Mr. Rankin finally noted that CMEEC Margin was strong for the month. The CMEEC margin increment anticipated to result from the HCOG-Lowell municipal aggregation will favorably affect results for the last quarter of 2014. CMEEC staff is engaged in continued work to bring in the EOY projected result for this metric as strong as possible.

Mr. Rankin indicated that he intended to schedule a meeting of the Transco Board in September to make Patricia Meek of the CMEEC staff available to provide an explanation of the Transco operations and metrics and the rate structure and assumptions used in reporting on the project.

(D) Backus MicroGrid Project Update.

Mr. Rall reported on the status of the project, noting that the project was nearing completion with the last major item remaining being stack testing scheduled for next week. Once this task is completed the project will be fully operational. Last week, the project commissioned the selective catalytic reduction ("SCR") systems. To date, the operation of the equipment has been satisfactory, and not adversely affected by the four year storage period of the engines. With respect to the SCR equipment installation, some, but limited, gasket replacements and pressure switches replacements have been required, with the requisite equipment on order. This activity will not impede the stack testing. During testing to date, there has been some, but remediated, experience with the gaskets, causing extra air to get into the exhaust stream. The units ran during testing during the August monthly peak hour everything operated smoothly. The project operated at full load, yesterday, generating 2650 kW per unit or 10.2 MW for the site.

Mr. Rankin elaborated on the pending permit modification for the original 16 units of the Project, due to the fuel rate limit incorporated into the air emissions permit. TRC, CMEEC's environmental consulting firm and Mr. Rall are working to increase the permitted fuel rate up to allow for running at full load. Mr. Rall elaborated on the additional work done to support this proposed permit modification including reviewing and updating the background inputs for weather and pollution used for the air emissions permit application modeling. Under this revised modeling, the project experiences no violation of air emissions requirements. CMEEC staff is planning to have the permit modification in place before July 2015, to allow for full operation during the anticipated annual peak hour in 2015. The change would be a minor modification of the permit which should be processed by the Department of Energy and Environmental Protection ("DEEP") quickly. Director K. Sullivan inquired about the electrical configuration of the project. Mr. Rall explained that each set of two units is connected on a separate distribution feeder. Director Bilda noted that the Backus Hospital load is approximately 7 MW. In these circumstances, Mr. Rall noted that there should be sufficient local load available for displacement. Mr. Rankin and Mr. Rall noted that an event to celebrate the commissioning of the project is planned for Sept. 22, to be coordinated by Norwich Public Utilities ("NPU"). Mr. Rall noted that project completion is scheduled for Sept. 5, when the communications links for the project are anticipated to be complete and, following which, the project can be started remotely from CMEEC's operations center. Mr. Rall noted that he anticipates closing out the billing for the project by the end of September.

(E) Subase MicroGrid Project Update.

Mr. Rall reported on the agenda item. He noted that there has not significant activity on the project during the prior month. He noted that the Project management plan was sent out. He is currently working on the Interconnection agreement and the joint development agreement with Groton Utilities ("GU"), the engineering scope, and with TRC to begin on the modeling to support the air emissions permit application. Mr. Rall reported that the previously reported dates in the project schedule remain realistic and that the previously reported cost projections have not changed.

(F) Energy Cost Analysis Summary Overview.

Mr. Connell reported on the agenda item. He noted that the June power costs came in slightly above the projected values, as CMEEC staff continued to fill in positions in a market affected by the prior (and anticipated future) difficult winter experience. CMEEC's hedges are slightly more than forecasted load to deal with the difficulty of acquiring call options as an alternative. The mitigation pursued by CMEEC staff is take slightly long position of forecasted load (104% of forecasted load), with the plan to sell off the incremental position if ultimately not needed. Prices have been impacted by a variety of events, including a natural gas compressor outage on the Algonquin Gas Transmission ("AGT") system, but the impact was less than anticipated. For

July, purchases were $1-1.25/MWh above budget. Locational marginal prices ("LMPs") have been in the low $30s/MWh, reflecting a negative basis (against Henry Hub natural gas pricing) for all months except winter, with New England deliveries hitting $0.70-1.00/MMbtu lower than Henry Hub, reflecting lower loads in the summer, and natural gas storage numbers. An additional pattern seen is that when the commodity cost drops, the forward market estimate of New England delivery goes up, resulting in a balancing out the discount and premium. CMEEC currently is 88% covered for coming winter. Currently CMEEC staff is evaluating when to cover the remainder, but staff is limited by policy. The intent is to try to acquire 100% cover for winter months at optimal times for the procurement. Under current policy, CMEEC covers 80% of its needs for 2015, but cannot go above this until November. CMEEC staff will be proposing to change this to allow for procurement for sufficient cover by the prior July. CMEEC staff proposes to discuss these changes with the RMC. The RMC can waive the requirement or can amend the ERMP to address the immediate need. Mr. Rankin noted that the overall challenge is to strike the appropriate balance between short and long term for hedging.

Mr. Rankin noted that the prior winter period underlined the importance of addressing these issues, with costs for uncovered positions facing significant weather driven load increases over forecast and much higher market prices resulting in additional costs of $10-13/MWh. Mr. Connell noted that based on recent experience forward pricing starts to move in November depending on weather forecasts, with impacts also resulting from the electric distribution company default and standard service procurements. Mr. Rankin noted that CMEEC staff will be proposing ERMP modifications for Board review to explain and create a structure to deal more effectively with these challenges.

The Board inquired also about the effects of recent rule changes by ISO-NE with respect to hourly market operations and the ability for suppliers to reset their offers. Mr. Forshaw explained the change and the anticipated impact on market operations. The change is scheduled to take effect in early December. Bids into ISO-NE will be due 10AM in the morning, but are not fully coordinated with the natural gas markets. Generators are anticipated to bid by taking the highest natural gas prices into their offers to cover the risk of fuel cost divergencies, with the result of driving electric energy prices up. ISO-NE is moving to accepting hourly re-offers as part of the change. This will allow the Pierce Project to re-offer if LMPs are increasing. Operationally, this is not anticipated to have a material impact, it may remove some of risk premium presumed to be embedded in generators' bids. It is anticipated to result in increased price volatility in the real time market because the generators can chase changes in LMPs, which is anticipated to ultimately translate into the day ahead market ("DAM"), where most CMEEC load is settled. The average DAM price is, therefore, anticipated to go up, which will flow through into CMEEC power costs. CMEEC has incorporated a $1.25/MWh premium into the budget projection in recognition of this. As with CMEEC's other processes, this will be continuously evaluated, with lessons learned analyzed and incorporated into future projections.

Chairman Sullivan inquired and commented about recent newspaper reporting about the currently pending rate case for Connecticut Light and Power Company ("CL&P"), noting that there appears to be substantial mis-understanding of the reasons and basis for the CL&P rate case. Mr. Forshaw and Mr. Rankin described in general terms the elements of the CL&P proposal, comprising recognition in rates of deferred costs, and investment in hardening the system resulting from and in response to recent major storm events. In addition, the rate case includes a rebalancing of CL&P's rates to move more of its cost recovery into fixed elements of the customer bill, particularly the customer charge. This is in response the roll-out of rooftop solar generation and other distributed generation resources at individual customer locations, which is anticipated to decrease materially energy sales to such customers and, absent the increase in the uniform fixed charge portion of the bill, shift more of the fixed cost recovery to customers without such generation. This is also part of a national effort by electric distribution companies (particularly in the southwest and southeast) responding to this phenomenon. Director Bilda commented generally on this development, analogous to rate "decoupling"; with the intended goal, recovering more of a utility's costs in the fixed portion of the bill and less in the volumetric portion. This also points out the benefit of the community solar garden type project which still allows for renewable energy procurement without the attendant and possibly inequitable cost shifting among customers. Director K. Sullivan noted that Jewett City has created a policy to calculate fixed costs for each customer with solar generation and to set rates to minimize the cost shifting. Mr. Rankin reiterated that this development is occurring nationally, with utilities in the southwest and southeast making similar proposals to change their retail customer rate structure. The solar garden type project does not result in this type of impact. Mr. Rankin indicated that he would circulate articles in a package to the Board further describing this development. Mr. Forshaw noted that Massachusetts and industry groups continue to push for more customer located solar generation with forecasts of significant increases in penetration, and with the implication that responses to this development by utilities, such as that of CL&P, are likely to continue. Mr. Rankin noted that in a recent meeting with DEEP officials, there appeared to be greater recognition of the adverse cost and cost shifting impacts of these developments. Mr. Forshaw noted that Connecticut continues to be the strongest supporter of natural gas interstate pipeline expansion, which is a priority policy response to seek to lower the substantial winter electric cost increases experienced in New England, favorably impacting the cost pressures on electric rates.

Motion was made by Director Bilda, seconded by Director DeMuzzio, for the meeting to enter into in to executive session to discuss (i) the Business Development Review (Item G), (ii) the CEO Employment Agreement, and (iii) the Governance Committee materials, with direction to the Chair to direct that the meeting enter back into public session upon the completion of the discussion.

Voted passed unanimously. (14-52).

The meeting went into executive session at 10:42 AM. The basis for going into executive session, with respect to the discussion of the Business Development Review, was Conn. Gen. Stat. Sec. 1-200(6)(E) (entailing discussion of any matter which would result in the disclosure of records or the information contained therein as described in sub-sections (b)(1), (5) and (7) of section 1-210). The basis for going into executive session for the remaining items noted in the motion (items (ii) and (iii)) was Conn. Gen. Stat. Sec. 1-200(6)(A)(Discussion concerning the appointment, employment, performance, evaluation, health or dismissal of a public officer or employee).

Present during the discussion of the agenda item, Business Development Review, were all of the Directors/Representatives and Messrs. Rankin, Forshaw, Cassella, Rall, Connell and Sussler. The discussion for that portion of the executive session ended at 11:35 A.M. During the subsequent discussion of the matters related to the CEO Employment Agreement and the Governance Committee materials, present were all of the Directors/Representatives and Mr. Rankin only.

The meeting came back into public session at 11:58 A.M.

Mr. Rankin noted that CMEEC management planned to schedule and convene meetings of the RMC and B&F as appropriate in the near future to follow up on and respond to matters related to and affecting the proposed revisions in the ERMP and CMEEC's business development initiatives.

A motion was made to adjourn the meeting by Director Demicco, seconded by Director Bilda.

Voted passed unanimously (14-53).

There being no further matters to be discussed, the meeting was adjourned at 12:01 PM.