



CMEEC Board of Directors' Meeting

February 28, 2013

DRAFT

MINUTES

A regular meeting of the Board of Directors of the Connecticut Municipal Electric Energy Cooperative ("CMEEC") was conducted on Thursday, February 28, 2013, at CMEEC's offices. The meeting was legally noticed in compliance with Connecticut State Law, and all proceedings and actions hereinafter recorded occurred and/or were taken while the meeting was open to the attendance of the public.

Chairman Hiscock called the meeting to order at 9:35 a.m. and determined a quorum was present.

The following Directors participated:

Jewett City – Kenneth Sullivan, Richard Throwe, Louis Demicco
Groton – Edward DeMuzzio, David Collard, Paul Yatcko
Norwich – James Sullivan
East Norwalk – David Brown, James Smith
South Norwalk – John Hiscock, Scott Whittier, Mark Harris
Wallingford – George Adair, Robert Beaumont – both present by phone

The following staff and guest presenter 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 of Asset Management
Gabriel Stern, CMEEC, Director, Strategic Planning and Technical Services
Michael Cassella, CMEEC, Director, Customer Program Management
Kristen Wood, CMEEC, Office and Executive Specialist
David McQuade, Murtha Cullina.

Mrs. Wood recorded

(1) Approve Minutes of the CMEEC January 24, 2013 Board of Directors' Meeting.

Motion by Director Edward DeMuzzio, seconded by Director James Smith, to approve the Minutes of the CMEEC January 24, 2013 Board of Directors' Meeting.

Vote Passed, Directors Mark Harris and Paul Yatcko abstained.

(13-06)

Specific Agenda Items

(2) Update on CT 2013 Legislative Session Matters (Discussion)

Mr. David McQuade, from the law firm Murtha Cullina, provided an overview of the 2013 Connecticut Legislative Session Matters. Mr. McQuade indicated that the general environment at Legislature, this year, is being driven by the serious budgetary challenges for adoption of the State's biennial budget, posed by a projected nearly one billion dollar deficit. Under current proposals, half of this deficit is planned to be covered by bonding; the remainder is planned to be met by cutting state services and reductions in Medicaid. The Medicaid reductions are anticipated to be offset by increased revenues provided by the federal overhaul of medical care. Federal support, however, is conditioned on the establishment of a state-based insurance exchange and individual opt-ins, which may not be timed to align with the expenditure cuts to be implemented as part of the budget. This legislative session also has thirty (30) new legislators, out of one hundred eighty seven (187). This larger environment may result in a reduction in the time and energy that the legislature can dedicate to energy related matters.

Mr. McQuade then focused more specifically on issues relating to energy. The Legislature's Energy and Technology ("E&T") Committee will be chaired by two new chairpersons, Sen. Robert Duff and Rep. Lonnie Reed. The State Department of Energy and Environmental Protection ("DEEP") just released the final version of its Comprehensive Energy Plan ("CEP") for the State, which anticipates additional statutory enactments and regulatory actions for implementation. The E&T Committee is currently trying to better understand the CEP's implications and develop a legislative package in response.

Mr. McQuade updated the Board with respect to issues arising from SILT, the Life Threatening Medical Act, which limits power shut-offs for people with medical needs. The sense from discussions with legislators is that they want to defer the issue of potential abuse of this system until after the current legislative session; to ensure they will be able to provide the proper focus on the issue and have it ready for action during the next Legislative session. It was noted that there is a pending proposal to expand this option, by making it available for a utility customer if the medical condition is certified to by an optometrist. Mr. McQuade responded that the legislature will be working on a package for this summer, including also consideration of this pending proposal, after the end of the session. There has not been stronger support to take up the general issue of utility shut-off policy for adoption in legislation this year.

Mr. McQuade then discussed some highlights of the CEP. A focus of the CEP is to expand the utilization of natural gas in the State. A practical challenge affecting natural gas availability and pricing is the need to "debottleneck" deliveries through expansions of pipeline capacity into Connecticut from the south and west. There are proposals to build such capacity that will run through Connecticut, but the anticipated in-service date and ultimate cost and cost allocation of this additional capacity are uncertain.

Another issue, proposed by the CEP, is to require the performance of energy audits before and as a condition to the sale of commercial and residential properties. The plan proposes extending this requirement to residential properties. Also, still pending is the completion of a report by DEEP regarding the design and scope of the renewable portfolio standard. Currently, there is a projected shortage of Class I RECs when measured against

the procurement targets over the next decade. There is discussion of making electric output produced by hydroelectric and wind facilities owned or procured by Hydro-Quebec (“HQ”) as qualifying for Class I or a supplied through a separate, newly created tranche of renewable power. This potentially could be a highly contentious issue during this legislative session, pitting HQ and transmission owners promoting electric transmission facilities needed to deliver the power from HQ into the region against in-region renewable developers.

As further described by Mr. McQuade, an additional issue under discussion during the current session is the Governor’s proposal, included as part of the Administration’s budget, to auction the standard service (“SS”) customers of the electric distribution companies (“EDCs”) to competitive suppliers. Under the proposal, those customers still on the EDCs’ SS would be moved into an auction pool which would be bid on by competitive suppliers in return for a first year guaranteed price reduction and a payment to the State. This proposal is likely to be contentious as there currently is significant push-back from customer advocacy groups who assert that the SS provides a useful yard-stick to measure and discipline market competition.

Mr. Rankin inquired about developments affecting Microgrids. Mr. McQuade offered the legislature may hold back until it sees how the current applicants working through the DEEP’s current procurement process are doing. It was noted that the implementation of Microgrid raises significant issues regarding the interconnection process. The general perception has been to continue to let those project proponents who are currently included in the DEEP grant and procurement process go forward on a pilot basis. Mr. McQuade offered that there has been some discussion about increasing the grant monies available for the program, but that, given the difficult budget circumstances, this may only occur at a later time.

There being no more questions, Mr. McQuade concluded his discussion.

(3) Energy Market Trending Analysis / Review (Presentation)

Mr. Forshaw presented a PowerPoint presentation to the Board of Directors regarding recent trends in the energy markets.

Mr. Forshaw reviewed the experience through the end of January, stating that there were a lot of uncertainties, and that the operating environment has been very challenging. Mr. Forshaw reported the projected January results exceeded cost by nine dollars per MWh (\$9/MWh). This variance reflects the extremely volatile spot market electric energy prices experienced during the period. Mr. Forshaw described how the daily locational marginal price (“LMP”) ranged from low of \$32/mwh to high of \$243/mwh. The major driver of this volatility, in turn, was extreme volatility in the delivered cost of natural gas into the region; with similar volatility seen in the basis differential for natural gas delivered into the region when compared with the underlying commodity cost of natural gas as measured by prices at national trading hub prices natural gas. The translation of natural gas price volatility into electric energy prices is reflective of the characteristic of the New England wholesale electric market with natural gas fired electric generation customarily functioning as the marginal and price-setting electric supply in the region.

Mr. Forshaw described that if CMEEC had not had a portfolio of supply contracts in place to supply its load, the costs to serve CMEEC’s load during this period directly from the ISO-NE administered markets would have cost as much as \$90/mwh. CMEEC is instead projecting costs for the period to be about \$64/mwh. The downside is that this cost is about \$9/mwh over the forecast made in December.

Mr. Forshaw explained, referencing the graph on page 4 of the presentation, the impacts of the power outages experienced at the Pilgrim Unit and the Rhode Island Landfill Gas projects, both contracted to CMEEC on a unit contingent basis, created a spike in price due to the loss of the electricity that otherwise would have been supplied to CMEEC by these projects under fixed-price arrangements. Director DeMuzzio inquired whether

similar price volatility was experienced in 2011-2012 Mr. Forshaw responded that this year was the first time similar such high volatility has been seen this since 2008.

Mr. Forshaw then explained page 5 of the presentation. As explained by Mr. Forshaw, this slide represents the percentage difference between the budget projections and the actual amounts experienced with respect to power supply. The load forecasts were accurate (comparing budget to actuals). The total energy cost was about seventeen percent (17%) higher than projected and the cost of the base load resources was accurate (again, comparing budget to actuals). In terms of spot resources, the CMEEC staff took fifty percent (50%) fewer MWh at the market price.

He also explained the bottom two sections of the table. The implied heat rate for delivered energy, embedded in the daily LMPs, has been fairly stable. The Henry Hub commodity price showed little variation between the budget and actual. The major price variation was due to the volatility in delivered natural gas, as measured by Algonquin Gas Transportation ("AGT") New England (city-gate) delivered price.

Mr. Forshaw continued the presentation to discuss slide 7 which plotted AGT delivered natural gas costs for the month of January, 2013. The slide shows qualitatively the increased volatility experienced in 2012-2013 and compares it with experience in prior years.

Mr. Forshaw reviewed the Unit Contingent Source Availabilities. He explained CMEEC's process for reviewing the data and experience to develop lessons learned from this recent experience. CMEEC did an analysis concluding if the Unit Contingent Sources had been available; CMEEC's power costs would have been \$1.33/mwh less than actual.

In regards to the mitigating actions taken, Mr. Forshaw reported that during November CMEEC purchased twenty-five megawatts (25MW) for delivery in January of 2013 at \$80/MWh to comply with the minimum volume targets established in the risk management policy. Director DeMuzzio inquired how far ahead CMEEC is currently covered with forward purchases. Mr. Forshaw answered that by the start of each month, CMEEC will have its forecasted load covered at the ninety percent (90%) level. In December of 2012, CMEEC opted not to buy above the minimum volume target stated in the RMP in advance. As CMEEC went into the month, CMEEC staff made decisions to procure incremental resources. The highest cost days were January 1st-20th and January 21-28th. CMEEC's actual costs exceeded budget costs by \$2.60/MWh.

Mr. Forshaw commented that the lessons learned were to anticipate the possibility for extreme pricing volatility through the winter month(s), mostly due to combined effects of colder weather, increased basis differential for natural gas delivered into New England and the translation of the basis differential into electric energy LMPs. CMEEC was also affected by outages at the power projects covered under CMEEC's unit contingent bilateral contracts. Director DeMuzzio inquired whether if CMEEC had bought a month earlier and had not experienced the outages, what would have been the outcome. Mr. Forshaw responded that CMEEC probably would have been within budget or slightly in excess.

(4) RPSC Approval Status (Handout)

Mr. Rankin presented a handout to the board regarding the status of the approvals of the RPSC. There are five municipal electric utilities ("MEUs") that are proposed to be parties to the RPSC. Four (4) out of five (5) of these MEUs have received approvals from their utility commissions. The fifth MEU has scheduled the receipt of approval for Tuesday March 6th, 2013. The procedure to be followed is, first, for the MEU's commission to approve the RPSC and then to file the approved RPSC with the clerk of the MEU's legislative body. Then there is a thirty (30) day waiting period during which the RPSC is subject to review and further disposition by the legislative body at its election. Once the period is completed with no action taken by the legislative body, then the RPSC can be executed and becomes binding on the MEU. The last date for completion of these procedures

for the MEUs, based on the current schedule, is April 4th -5th. Director DeMuzzio inquired whether those MEUs who are acting to approve the RPSC later are approving a different form of the RPSC. Mr. Rankin responded that the version approved by the MEUs other than Groton was different with respect to the definition of Membership Agreement, but otherwise was the same. Director Collard commented that Groton's legal counsel had reviewed the change and determined that it was not material.

Mr. Rankin also discussed of the pending CMEEC membership agreement ("MA"). He stated that he and Mr. Sussler will be meeting with Director Hiscock and his attorney to discuss their comments on the draft agreement, previously circulated to all the MEUs. Mr. Rankin confirmed that CMEEC staff would be re-circulating drafts of the MA and the Bylaws, incorporating the results of those discussions, for further review and comment by the MEUs.

Mr. Rankin also commented that there will be a meeting of CMEEC management with the credit rating agencies on March 13th in connection with the pending CMEEC debt refinancing. CMEEC currently anticipates receiving the credit rating agencies' ratings and, then, closing on the global CMEEC refinancing in April. Mr. Rankin offered to set up a call for Board participation in the refinancing pricing meeting.

Mr. Rankin concluded the discussion by inquiring regarding the results of each MEU's evaluation of the use of their trust fund monies for re-payment of CMEEC indebtedness in connection with the pending refinancing. Three (3) of the five (5) MEUs have conveyed this information to CMEEC staff. Mr. Rankin would like all the MEUs to select the level of utilization desired and transmit that information to Mr. Pryor.

Objectives

Chairman Hiscock asked for a consensus of the Board on whether the Directors would prefer CMEEC staff to go over the Objectives section of the Board package in more detail or rather to proceed by asking questions based upon the Directors' reading of the materials. The sense of the Board was to choose to ask questions since the Directors generally already had reviewed the section on their own.

Director Adair inquired about the Maximize Asset Value section and the sale of distributed generating units and the status of the proposed sale. Mr. Rankin responded that CMEEC has been evaluating the potential for the sale of these assets. CMEEC plans to conclude on their disposition within the next forty to fifty (40 - 45) days. If the sale is not effected, CMEEC will consider moving forward to other options. Director Harris questioned if CMEEC has investigated terminating the projects and pulling them out of the markets in which they participate. Mr. Rankin answered that CMEEC looked into doing that for January 1st of this year, but due to an ISO-NE commitment related to the assets, they will remain in the market until April.

Motion to adjourn meeting by Director David Brown, seconded by Director Louis Demicco.

Vote Passed. Unanimous.

(13-07)

There being no further business of the Board, the meeting was adjourned at **11:30 a.m.**

Respectfully submitted,



Philip L. Sussler
2nd Assistant Secretary

