CMEEC Board of Directors' Meeting

September 27, 2012

MINUTES

A regular meeting of the Board of Directors of the Connecticut Municipal Electric Energy Cooperative ("CMEEC") was conducted on Thursday, September 27, 2012, 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 9:33 a.m. and determined a quorum was present.

The following were present:

Representatives/Directors and Alternate Representatives/Directors

Jewett City – Louis Demicco, Kenneth Sullivan, Richard Throwe
Groton – Edward DeMuzzio, David Collard
Norwich – James Sullivan, John Bilda
East Norwalk – David Brown, James Smith
South Norwalk – Mark Harris, John Hiscock, Scott Whittier
Wallingford – George Adair, David Gessert

Also present were the following:
Michael Cassella, CMEEC, Director, Customer Program Management
Edward Pryor, CMEEC, Chief Executive Officer
Brian Forshaw, CMEEC, Director Power Supply
Drew Rankin, CMEEC, Chief Executive Officer
Philip Sussler, CMEEC, General Counsel
Gabriel Stern, CMEEC, Director, Strategic Planning and Technical Services
Kristen Rollins, CMEEC, Office and Executive Specialist
Thomas Solinsky, CMEEC, Director of Asset Management

Ms. Rollins recorded

Standard Action Items:

(1) Approve Minutes of the CMEEC August 23, 2012 Board of Directors' Meeting.

Director Adair noted that the discussion in the draft minutes should reflect that the request regarding a legislative response was to consult with CMEEC's legislative advisors rather than for the establishment of a committee.

Motion by Director James Smith, seconded by Director Louis Demicco to approve the Minutes of the CMEEC Aug. 23, 2012 Board of Directors' Meeting, as corrected.

Vote for approval by all Directors present. (12-42)

Specific Agenda Items

(2) CMEEC Formal Board Voting Procedures / Review & Discussion.

Mr. Sussler provided a description of the CMEEC Formal Voting Procedures to the Board, entailing potentially a three step process, with an initial vote (with each member and participant director voting), a second, "member" vote (without counting participant votes and triggered if removal of the participant director votes were to alter the result of the initial vote) and, if requested, a "weighted vote." The worksheet circulated by e-mail prior to the meeting and referenced in the written memorandum to the Board can calculate the weighted vote by plugging in the appropriate inputs with respect to attendance of representatives and the relative weights of each vote cast. For the weighted vote procedure, each representative/director of each member has a vote based on the load-based weighting of the member which the director represents, but the relative weighting of each representative/director also depends on the overall attendance of representatives at the meeting. Mr. Rankin noted that the effect of one representative from a particular municipal electric utility ("MEU) voting in favor and the other representative of the same MEU voting against a resolution subject to the weighted vote procedure would negate the approval of the MEU in meeting the additional requirement that at least three MEUs approve the vote, in the event of a weighted vote.

There were questions and comments regarding the last sentence of the excerpt the statute included in the Board materials describing the operation of the weighted vote. Director Hiscock commented that the second half of sentence provides that the approval of at least three members is required to approve any vote made subject to the weighted vote procedure. Mr. Harris inquired about the measure of electric load used to establish the weighting of the votes and when a MEU could include purchases from entities other than CMEEC for purposes of establishing its electric load. Mr. Sussler provided a clarification in response, namely that only in the instance of the first year for a new member are purchases from entities other than CMEEC included in the measurement of load used to calculate the weighting of the vote.

(3) Forward Energy Contract Portfolio Optimization.

Mr. Rankin reported regarding the efforts of CMEEC's power supply staff in analyzing certain hedging positions taken by CMEEC that, over time, have become substantially out of market and methods for modifying those positions to reduce current power supply costs. These positions are currently estimated to cost CMEEC approximately $9/MWh above current short-term market pricing. The initial approach was to approach CMEEC's counterparties to explore extending the term of the purchases by shifting the volumes of purchases from 2012 and 2013 to the period 2014-2016 and thereby leveling the cost of the forward purchases, which would result in an approximate $1.5 million premium over forward price projections. Staff concluded that this approach, due to the price premium, was not cost effective. CMEEC staff also investigated the alternative of utilizing each Member's funds held by CMEEC to lower the current cost of these positions. Using this alternative approach, it is estimated that power costs could be decreased by $5/MWh in 2012 and $3/MWh in 2013, with deferred recovery of these price reductions, plus an assumed 4% interest on the utilized funds, in 2014-2016. Mr. Rankin emphasized that this alternative is being developed as an option for the Board to consider. Mr. Rankin stated that implementing this option is estimated to entail the use of approximately $6.7 million of funds held by CMEEC and will reduce the measure of CMEEC days on cash on hand down by approximately 13 days, with the result that Members would not have to collect from their customers $5/MWh for the rest of 2012. It was noted that the nominal dollar amounts paid over the entire period will be the same adjusted by the interest payment; rather, the option is a way of shaping the payments over a longer time period. Mr. Rankin responded that it would lower 2012-2013 power costs by approximately about 5% and 3% respectively, while in years 2014, 2015, 2016 it will increase power costs by 1.5%, with corresponding impacts on cash flow.

Discussion was had concerning the basis for the selection and amount of the interest rate used to value the use of CMEEC/Member funds to effect the deferral in power costs and the impact on CMEEC's cash position, relative to CMEEC's requirements. Discussion was also had concerning the optimum timing of implementing this approach relative to the refinancing of CMEEC's outstanding debt.

Mr. Rankin summarized by stating that the analysis was conducted to develop options for the Board to consider. The sense of the Board was to defer consideration of the options for further review by the Budget and Finance Committee, with later reporting back to the Board for further action.

(4) Project 50 in 5/ last four generating units deployment. Decision.

Mr. Rankin summarized the issues raised. CMEEC has reviewed and analyzed the options for deployment of the last four generating units procured as part of Project 50 in 5, which are currently in storage. The information regarding this analysis is contained in information packets previously circulated to the Board. As part of this analysis, alternative sites and options for deployment of the last four units were evaluated and ranked for highest performance using net present value ("NPV") and KT decision factors. Based on this analysis, the Backus Hospital site was ranked the highest (or best) option; moreover, the build out option was rated highest when compared with other options (such as liquidation); however, to date the Board has deferred on deciding the specific option and site to be selected. Mr. Rankin stated that proposed for decision at today's meeting is whether to build out the four units at the Backus Hospital site or to pursue other options, including possible liquidation. At last month's Board meeting, this decision was expressly deferred to today's Board meeting.

Director Harris inquired if Bozrah Light and Power Company ("BL&P") had decided to maintain its participation at the previously approved overall project construction budget of $34 million. Director Collard responded that BL&P has decided to maintain its participation at that level. Mr. Rankin indicated that he would recalculate the participation levels of each of the project participants based on this information and circulate a note to the participants which documents this.

Mr. Rankin responded to a question regarding liquidation, indicating that the estimated fair market value ("FMV") for sale of each of the four generating units is approximately $450,000, but cautioned also that the resale value of the units has experienced substantial volatility (with a high value during the period of evaluation of $900,000 per unit). Accordingly, a decision to liquidate the last four units (i.e., for sale rather than deployment), would result in a loss to CMEEC of between $4.4 million to $2.6 million depending on the FMV of the units. Currently, the units' FMW is approximately one third to two thirds of their original cost.

Director Gessert inquired regarding the particular benefit to CMEEC from installing the units in Norwich. Mr. Rankin replied that the Backus Hospital site was the preferred, least cost, highest NPV option based on staff's analysis of the various alternate sites, and other than the NPV and KT evaluations, the CMEEC staff is neutral to site. Backus Hospital will also be assuming a portion of the cost (relating to the interconnection) due to the benefit it will derive from the back-up electric supply to the hospital resulting from the deployment. Based on the analysis done to date, the location is a good, clean site, with relatively easy access and with minimal incremental capital cost required for development. It is a site that is available that also has a need. Director Harris inquired whether some of the units are restricted in output due to technical or environmental permitting requirements and if these restrictions will apply at the Backus site. Director Bilda replied that, to his knowledge, there are no technical limits on the units' output if installed at the proposed site.

Director DeMuzzio stated that in his review of the issues and with the assistance from staff at CMEEC and Groton ("GU"), there is a continuing concern in evaluating the deployment decision arising from the estimation and management of the construction costs associated with the deployment of the units, particularly related to site development costs. These concerns follow from the problematic and difficult past experiences related to the 50 in 5 Project in particular. Accordingly, Groton approached Norwich Public Utilities ("NPU") to request that NPU agree to constrain the construction costs assumed by the other project participants. Groton requested that NPU assume the cost responsibility for development and construction costs which exceeded $3 million and NPU agreed that it would be willing to do so. Directors Bilda and J. Sullivan confirmed that this was NPU's commitment. Director Gessert noted that the positive NPV of the project depended heavily on improvements in the ISO-NE markets over the next ten years, which is uncertain, and is problematic based on past errors in estimating regional power capacity prices. Director DeMuzzio indicated that in the analysis he had undertaken in analyzing the project, a conservative case for evaluating the project was reviewed, which reduced the $8.32 million expected case NPV to $3.94 million worst case. Given that the Project still exhibits a significant positive NPV under this "worst case" scenario (and still in a better result than liquidation, estimated at minus $4.6 million), deployment of the last four units is still warranted.

Director Gessert inquired regarding the level of CMEEC's current losses from the project. Mr. Rankin replied that the project's current financial position is adversely impacted by the 10 year lease financing structure originally adopted for the project. With the current lease repayment schedule, the Project results in a current annual negative net benefit of approximately $3 million/year. If CMEEC were to modify the current 10-year financing lease to a refinancing option commensurate with the life of the assets, the Project is estimated to derive a current net benefit of approximately $1.5 million cash flow/year. As a result, there is about a $4 million swing in annual net benefit after refinancing.

Motion by Director Bilda, seconded by Director Demicco to approve the installation, construction and operation of the 50 in 5 Project remaining un-deployed four generating units to be placed at the Backus Hospital (Norwich) Location, subject to the commitment of the Norwich Public Utilities to fully support incremental site development and construction costs in excess of $3 million, if any.

Vote Passed, Representatives Adair and Gessert voting no. (12-43).

Mr. Rankin indicated that the next steps following this decision to be undertaken by CMEEC staff include the development of a comprehensive development and construction plan, with a budget, incorporating the recommendations from the Project 50 in 5 root cause analysis, for execution of the deployment of the last four units. The plan will include a schedule for securing the required permitting, a charter for allocation and assignment of reporting and management responsibility, the engagement of an experienced construction manager and engineering, procurement and construction agreements to properly allocate and assign responsibility for construction management and cost control of the project.

Mr. Rankin also commented on the steps required to effect the refinancing of CMEEC's existing debt, including the 10 year lease financing associated with the 50 in 5 Project. CMEEC staff has recommended undertaking the refinancing; and, indicatively, all the MEU commissions have recognized the value of accomplishing this. Current estimate of the benefit is an approximate 5% improvement in regional competitiveness and an alignment of the term of the financing with the useful life of the assets. The vehicle for accomplishing this is agreement on and approval of the Replacement Power Supply Contracts ("RPSCs") currently in preparation and negotiation, which will require approvals from each of the individual Member MEUs' commissions. Wallingford approval of its arrangements with CMEEC with respect to the Pierce and Project 50 in 5 projects will also be required. CMEEC staff has scheduled meetings with representatives of the members and has circulated and modified a draft of the RPSC. CMEEC's current schedule is to seek concurrence by the Members on the form of the RPSC at the October Board meeting, or a special meeting, thereafter, which, if achieved, would then initiate the process for local approval of the contract by each of the MEUs. The current estimate of the timing to accomplish this effort is to complete the contracts and the approval process in December, with the anticipated refinancing accomplished in March, 2013.

Director Adair requested that CMEEC staff develop a written package which provides an analysis of the proposed refinancing and alternatives. Mr. Rankin stated that CMEEC is soliciting input from each of the member participants regarding any information they may need with respect to the proposed refinancing.

(5) Information Package on Risk Management Policy (preview for decision at the October Board meeting).

Mr. Rankin reviewed the informational package circulated to the Board members regarding the proposed CMEEC Risk Management Policies and Procedures. CMEEC management is providing this for review, with the anticipation that the Board will consider this for a vote for approval at the October Board meeting. There is a meeting of the CMEEC Risk Management Committee to further review and consider this, scheduled for October 4, 2012, with all Directors invited to attend. The package includes a description of the conformity of the proposed policy to the recommendations of the Committee of Chief Risk Officers ("CCRO") contained in the CCRO publication "Risk Management Standards for Energy Market Participants" (2012).

(6) <u>Objectives:</u>

Mr. Forshaw reported with respect to Regional Competiveness. Mr. Forshaw indicated that the CMEEC Power Supply staff is currently preparing the power cost forecasts for the 2013 budget, which will entail an update of power market conditions. The Board materials previously circulated provide estimates of CMEEC's estimate of future power costs and competitive position with respect to CL&P standard service and competitive supplier costs.

Motion by Director Harris, seconded by Director Demicco to go into Executive Session.

Vote Passed. Unanimous. (12-44).

The basis for the going into executive session was Conn. Gen. Stat. Section 1-200(6) (A) and (E) (entailing discussion of any matter which would result in the disclosure of public records or the information contained therein described in sub-sections (b)(1),(5) and (7) of section(1-210)).

The meeting went into executive session at 11:04 a.m. to discuss Former CEO Contract and Mashantucket Pequot Tribal Nation ("MPTN") developments Update.

Only Directors were present during the executive session.

Motion by Director John Bilda, seconded by Director Kenneth Sullivan to come out of Executive Session.

Vote Passed. Unanimous. (12-45).

Motion to adjourn meeting by Director Demicco, seconded by Director Whittier.

Vote Passed. Unanimous. **(12-46).**

There being no further business of the Board, the meeting was adjourned at **11:57 p.m.**

Respectfully submitted,

Philip L. Sussler
2nd Assistant Secretary