

MINUTES OF THE MEETING OF THE
JOINT BUDGET AND FINANCE COMMITTEE
OF THE
BOARDS OF DIRECTORS OF
CONNECTICUT MUNICIPAL ELECTRIC ENERGY COOPERATIVE
AND
CONNECTICUT TRANSMISSION MUNICIPAL ELECTRIC ENERGY COOPERATIVE

October 18, 2019

A Regular Meeting of the Joint Budget and Finance Committee of the Boards of Directors of Connecticut Municipal Electric Energy Cooperative (“CMEEC”) and Connecticut Transmission Municipal Electric Energy Cooperative (“CTMEEC” or “Transco”) met at the CMEEC offices located at the CMEEC offices located at 30 Stott Avenue, Norwich, CT and via telephone on Friday, October 18, 2019 at 12:00 p.m.

The meeting was legally noticed in compliance with Connecticut State Statute and all proceedings and actions hereafter recorded occurred during the publicly open portions of the meeting.

The following Committee Members participated:

Groton Utilities: Ronald Gaudet
Norwich Public Utilities: Stewart Peil
East Norwalk, TTD: Kevin Barber

The following non-Committee Members participated:

Bozrah Light & Power: Richard Tanger
Groton Municipal Representative: Mark Oefinger

The following CMEEC staff participated:

Michael Lane, CMEEC Interim CEO and CFO
Robin Kipnis, Esquire, CMEEC General Counsel
Justin Connell, CMEEC Director of Sustainability and Customer Engagement
Patricia Meek, CMEEC Financial Planning & Analysis Manager
Joanne Menard, CMEEC Controller
Hao Ni, CMEEC Asset Performance Manager
Michael Rall, CMEEC Director of Asset Management
Scott Whittier, CMEEC Director of Enabling Services

Ms. Kipnis recorded.

Committee Chair Kevin Barber called the meeting to order at 12:02 p.m. He noted for the record that this meeting is being held at the CMEEEC offices located at 30 Stott Avenue, Norwich, CT via telephone and in person. He asked that those participating by telephone and those sitting in the room identify themselves for the benefit of all to know who was present at today's meeting. Committee Chair Barber confirmed a quorum was present.

Specific Action Item

A Public Comment Period

No public comment was made.

B Approve Minutes of the October 11, 2019 Regular Meeting of the CMEEEC / CTMEEEC Joint Budget & Finance Committee

A motion was made by Committee Member Ronald Gaudet, seconded by Committee Member Stewart Peil to approve the Minutes of the October 11, 2019 Regular Meeting of the CMEEEC / CTMEEEC Joint Budget & Finance Committee.

Motion passed unanimously.

Joanne Menard, CMEEEC Controller, walked the participants through the new accounting treatment required under GASB 87. The change mandates that, starting in 2020, the implied cost of financing must be accounted for based on the Net Present Value of the Leases over the life of the lease. This means that the expenses will be higher in near years than in later years, with a zero-net impact. The change impacts the Pierce and Microgen Project with a \$62,000 variation for Pierce and \$19,000 for Microgen in 2020.

Patricia Meek, CMEEEC Financial Planning & Analysis Manager, then highlighted two refinements implemented in the 2020 budget. The first is the increase of the overhead adder after a study was performed by Arthur J. Gallagher Co. The overhead adder went from .6 in the 2019 budget to 1.75 in the 2020 budget. Discussion ensued regarding the details of the Gallagher study.

Ms. Meek next highlighted the refinement of labor cost allocations being made in the 2020 budget to reflect CMEEEC employee labor spent on Hydro Quebec, Community Solar Gardens and Battery Storage Projects, noting that this change means that these charges are directly allocated to the Project and do not therefore show up in CMEEEC's Net A&G.

C Review Proposed 2020 Project Statements

Michael Rall, Director of Asset Management, walked the participants through the handout on the Consolidated Proposed 2020 Project Performance Statements which contained a consolidated view of the Projects compared to the 2019 Approved and

Projected Year End, as well as the same view of the individual projects (Microgen, Pierce, Hydro Quebec, Transmission Project #1, DG Project, Community Solar Gardens, Battery Storage and the Subbase Fuel Cell Project). He also provided a Five Year Forecast of the Projects. He summarized that the decline in net benefit across these Projects mainly reflect a significant decline in ISO-NE capacity rates. For each of the Projects he highlighted the revenue and expense drivers, all of which are reflected in the Project Statement handouts. Lengthy discussion followed on the budgeted expense and revenues for the individual projects. Mr. Rall was asked to present a view comparing the most recent pro formas with the original pro formas provided to the Board on approval of the Projects.

Mr. Silverstone commented that the project statements do not reflect non-monetary benefits such as the renewable energy component and other benefits. He recommended adding an explanation to address this.

Mr. Rall reminded the participants that the Projects were designed as a hedge against increasing energy costs so that, for example, when capacity rates are low, cost to load declines from the decrease in capacity rates although the Project net benefit may decline.

D Review Changes to Proposed 2020 NFO Budget

Ms. Meek walked the participants through the handout entitled “Non-Fuel Operating Expense” which detailed the proposed 2020 budget and provided comparison to the 2019 approved budget and projected 2019-year end. As proposed, the 2020 NFO budget contemplates a 7% increase over the 2019 Projected Year End, but 3% less than the approved 2019 budget. Ms. Meek explained that there is an increase in the depreciation / amortization line item due to the application of the GASB 87. She pointed out that the 2020 NFO shows the reduction for the overhead adder on its own line and is no longer reflected as a reduction of the Employee Benefits line item. Lengthy discussion ensued.

E Review Changes to Proposed 2020 Capital Budget

Ms. Meek explained that the Budget & Finance Committee had seen the capital budget at its October 11, 2019 Committee meeting so that the handout presented at this meeting incorporated the changes requested, including a line item contingency of 10% incorporated into each proposed capital expenditure. The participants reviewed the handout entitled “Capital and Major Maintenance,” which listed the capital projects, timing and a brief description of the necessity and purpose of the expenditure. Chairperson Barber recommended adding an additional column to the budget to reflect the current status of the project if it is a carryover from 2019. Additional suggestions were made to incorporate some additional reporting on the Microgen SCR platforms.

F Review Proposed 2020 CMEEC Margin

Ms. Meek walked the participants through the proposed 2020 CMEEC Margin Budget comparing 2019 budgeted and 2019 Projected Year End to the Proposed 2020 Budget. Discussion ensued about how CMEEC margin is derived and the steps being taken by CMEEC to refine its methodology for charging margin.

There being no further business to come before this Committee, Committee Chair Barber entertained a motion to adjourn.

A motion was made by Committee Member Gaudet, seconded by Committee Member Peil to adjourn the meeting.

Motion passes unanimously.

The meeting was adjourned at 2:38 p.m.