

TOWN COUNCIL MEETING

FEBRUARY 25, 2003

6:30 P.M.

AGENDA

Blessing

1. Pledge of Allegiance and Roll Call
2. Correspondence
3. Consent Agenda
 - a. Consider and Approve Tax Refunds (#476-489) Totaling \$7,256.41 – Tax Collector
 - b. Consider and Approve a Transfer of Funds in the Amount of \$6,300 from Regular Salaries & Wages #001-2005-101-1000 to Hot Water Heater #001-2005-999-9910 – Police
 - c. Consider and Approve a Transfer of Funds in the Amount of \$20,000 from Contingency-General Purpose #001-7060-800-3190 to Gas & Oil #001-5015-300-3000 – Public Works
 - d. Consider and Approve a Transfer of Funds in the Amount of \$20,000 from Contingency-General Purpose #001-7060-800-3190 to Materials and Supplies #001-5015-401-4100 – Public Works
 - e. Note for the Record Financial Reports from the Wallingford Public Library, Visiting Nurse Association, Senior Citizens Center – Mayor
 - f. Consider and Approve a Bid Waiver Request in the Amount of \$7,224 for Quantitative Resources, LLC in Conjunction with A CT Department of Health Preventive Health Block Grant – Health
4. Items Removed from the Consent Agenda
5. PUBLIC QUESTION AND ANSWER PERIOD

GENERAL MANAGER-ELECTRIC
Town of Wallingford

Thorough knowledge of the methods, practices, equipment and materials used in the operation and maintenance of an electric utility.

Considerable knowledge of public administration principles and practices as applied to a publicly owned electric utility management and operation.

Considerable ability to communicate orally and in writing and to lead others.

Considerable ability to administer policies and procedures at the division level including goals, objectives, planning, financial management, decision-making and report development and writing.

Considerable ability to supervise the work of the Electric Division through subordinate supervisors.

Thorough ability to establish and maintain effective working relationships with supervisors, subordinates, associates, vendors, contractors and consultants, other governmental agencies, customers and the public.

QUALIFICATIONS:

A bachelor's degree in electrical engineering or related field such as mechanical, civil, or environmental engineering or business or public administration from a recognized college or university, plus twelve (12) years of progressively responsible experience in the electric utility field including at least five (5) years in a management position, or an equivalent combination of education and qualifying experience substituting on a year-for-year basis.

SPECIAL REQUIREMENTS:

Must possess and maintain a valid State of Connecticut Motor Vehicle Operator's License.

RECEIVED FOR RECORD Feb. 27, 2003
AT 10 H 25 M A M. AND RECORDED BY
Gregory A. Baccati TOWN CLERK

TOWN COUNCIL MEETING

FEBRUARY 25, 2003

6:30 P.M.

A regular meeting of the Wallingford Town Council was held on Tuesday, February 25, 2003 in the Robert Earley Auditorium of the Wallingford Town Hall and called to Order by Chairman Robert F. Parisi at 6:35 P.M. Answering present to the Roll called by Town Clerk Rosemary A. Rascati were Councilors Brodinsky, Doherty, Knight, Papale, Parisi, Rys, Toman and Vumbaco. Councilor Farrell was out of the country. Also present were Mayor Wm. W. Dickinson, Jr., Corporation Counselor Adam Mantzaris and Deputy Comptroller Eva Lamothe.

A blessing was bestowed upon the Council by Eugene Riotte, Deacon, Most Holy Trinity Church.

The Pledge of Allegiance was given to the Flag.

A moment of silence was observed for Frank Soldan, Former Superintendent of Schools in Wallingford from July, 1983 to August of 1987.

ITEM #2 Correspondence

ITEM #3 Consent Agenda

ITEM #3a Consider and Approve Tax Refunds (#476-489) Totaling \$7,256.41 – Tax Collector

ITEM #3b Consider and Approve a Transfer of Funds in the Amount of \$6,300 from Regular Salaries & Wages Acct. #001-2005-101-1000 to Hot Water Heater Acct. #001-2005-999-9910 – Department of Police Services

ITEM #3c Consider and Approve a Transfer of Funds in the Amount of \$20,000 from Contingency – General Purpose Acct. #001-7060-800-3190 to Gas & Oil Acct. #001-5015-300-3000 – Department of Public Works

ITEM #3d Consider and Approve a Transfer of Funds in the Amount of \$20,000 from Contingency – General Purpose Acct. #001-7060-800-3190 to Materials & Supplies Acct. #001-5015-401-4100 – Department of Public Works

ITEM #3e Note for the Record Financial Reports from the Wallingford Public Library, Visiting Nurse Association, Senior Citizens Center – mayor

6. Consider and Approve One (1) Appointment to the Inland/Wetlands Commission to Fill a Vacancy Which Expires 3/1/03 and Approve Appointment of Same Individual to Inland/Wetlands Commission for a Five-Year Term Commencing 3/1/03 and Expiring 3/1/08
7. Report out from Raymond Smith, Director of Utilities, Regarding the Standard Market Design for Electric Energy – Councilor Henry Toman
8. Executive Session Pursuant to Section 1-200(6)(D) of the Connecticut General Statutes With Respect to the Purchase, Sale and/or Leasing of Property – Mayor
9. Executive Session Pursuant to Section 1-200(6)(B) of the Connecticut General Statutes to Discuss Pending Litigation in the Phillip Yara Workers' Compensation Matter – Town Attorney
10. Consider and Approve a Settlement of Workers' Compensation Matter as Discussed in Executive Session – Town Attorney

ITEM #3f Consider and Approve a Bid Waiver Request in the Amount of \$7,224 for Quantitative Resources, LLC in Conjunction with a CT. Dept. of Health Preventive Health Block Grant – Health Department

Motion was made by Mr. Knight to Approve the Consent Agenda as Presented, seconded by Mr. Rys.

VOTE: All ayes; motion duly carried.

PUBLIC QUESTION AND ANSWER PERIOD

Pasquale Melillo, 15 Haller Place, Yalesville commented regarding item #3c on the Consent Agenda.

Chairman Parisi reminded Mr. Melillo that Councilor rules do not allow the discussion of an item that has been passed on the consent agenda.

Mr. Melillo asked if anyone looked into a matter he brought to the Council's attention at a previous meeting; drugs firms are to pay various states, Connecticut being one of them, \$80 million for conspiring to keep a less expensive, generic drug off of the market? He thought there may be excellent chance of getting some of the money.

Mayor Dickinson explained, it is a lawsuit brought by the state. We have no role to play in the matter, as far as he knows. It is similar to the money the State received on the tobacco issue and the State receives the money, appropriates it and uses it as they see fit.

Ted Curran, 116 Knollwood Drive asked, what is the status of the search for a new Comptroller?

Chairman Parisi answered, we just met last night so we are moving forward.

Mr. Curran asked, has there been a report on the Audit Committee?

Chairman Parisi replied, there's no report, but that is moving forward. I think I misunderstood your first question.

Mr. Curran asked, what is the status of the search for a replacement for Mr. Myers?

Mayor Dickinson replied, interviews are being conducted. The process is continuing.

Mr. Curran asked, is the audit report for the fiscal year 6/30/02 has been received by the Town yet?

Mayor Dickinson replied, not as of yet. We are expecting it, I believe, later this week; Friday, probably.

Mr. Curran stated, it is approximately eight months since the fiscal year ended and we don't have an audit report yet?

Mayor Dickinson replied, we had two extensions. As you are probably aware, the requirements for reporting have been changed. There is a new rule called, GAS B34 which required additional information and time consuming work on the part of the Finance Department. Once their work is done, the auditor has to review it. It is not new information but it is all the old information in a new format. It took time to put it together.

Mr. Curran stated, having attended one of Mr. Toman's meetings on the selection of a new auditor that the audit report would be a part of the purchase order that would be sent out to those that were on the list. Am I still correct on that? Would I presume, then, that there would have to be a delay because we have not seen the audit report?

Chairman Parisi answered, that report might be in by the time we mail our information out.

Mr. Curran stated, at the one meeting I did attend, it was stated that that report would be part of what was sent out.

Mr. Toman explained, I have met with the Purchasing Agent today and the other night the committee approved the draft with some changes. I met with the Purchasing Agent today and that subject came up and we don't want to keep from sending out this report, the R.F.P. So what we are going to do is send out an amendment when we get that report to all the sources we have mailed to. We don't want to have that held up. That is what we are going to do.

Mr. Melillo asked what the status was of the ball field issue?

Chairman Parisi replied, I don't think there has been any change in the status.

Mr. Melillo stated, from what I understand, PP&L is looking for a much lower tax assessment. They have been making pretty good profits overall.

Chairman Parisi stated with regards to their profits, that is none of our business. They have a right to make a profit.

Jack Agosta, 505 Church Street, Yalesville stated, in driving around last week, I noticed they (Public Works) did a good job but I don't think I saw one sidewalk that had a path to go through for everybody. Henry's men were working very hard.

Chairman Parisi replied, you're right. There were a lot of people out there working very hard. It was a good thing overall.

Mr. Melillo asked, what about the Wooding/Caplan property? Anything develop there?

Chairman Parisi replied, that committee is working very diligently.

Mr. Melillo asked, like Dillinger the criminal or...?

Chairman Parisi replied, that's good stuff; they are working very hard.

Mr. Melillo asked, of course, you are not going to take me seriously on that one?

Chairman Parisi answered, of course not.

Mr. Melillo thought that the way the issue ended last time, there was something solid in the works.

Chairman Parisi explained, there has been someone who has come in to look at the property. I heard that but I can't tell you that for positive, but I heard it from a pretty good source. That's about all there is that I am aware of. They are working; they are doing a good job.

Public Question and Answer Period was closed at this time.

ITEM #6 Consider and Approve (1) Appointment to the Inland Wetlands Commission to Fill a Vacancy Which Expires 3/1/03 and Approve the Appointment of the Same Individual to the Inland/Wetlands Commission for a Five Year Term Commencing 3/1/03 and Expiring 3/1/08.

The Wallingford Republican Town Committee endorsed Robert Selmecki for the position at its February 12, 2003 meeting. Mr. Selmecki has been serving in the position of Alternate on said commission.

Motion was made by Mr. Knight to Appoint Robert Selmecki to the Position of Commissioner on the Inland Wetlands Commission, seconded by Mr. Rys.

Chairman Parisi announced that the gentleman Mr. Selmecki is replacing has resigned (Robert Karlon). There is approximately 10 days left to the old term so that's why it is entered this way; to cover the week and the new term.

VOTE: Parisi abstained; all others, aye; motion duly carried.

Mr. Selmecki was not in attendance and, therefore was not sworn in at this time.

Chairman Parisi stated that he would remind Mr. Selmecki to go to Town Clerk's Office to be sworn in.

ITEM #8 Executive Session Pursuant to Section 1-200(6)(D) of the CT. General Statutes with Respect to the Purchase, Sale and/or Leasing of Property - Mayor

ITEM #9 Executive Session Pursuant to Section 1-200(6)(B) of the CT. General Statutes to Discuss Pending Litigation in the Phillip Yara Workers Compensation Matter – Town Attorney

Motion was made by Mr. Knight to Enter into Executive Session, seconded by Mr. Rys.

VOTE: All ayes; motion duly carried.

The Council entered into executive session at 6:55 P.M.

Present in executive session were all Councilors, Mayor Dickinson and Attorney Mantzaris.

Motion was made by Mr. Knight to Exit the Executive Session, seconded by Ms. Papale.

VOTE: All ayes; motion duly carried.

The Council exited Executive Session at 7:14 P.M.

ITEM #10 Consider and Approve the Settlement of Workers' Compensation Matter as Discussed in Executive Session – Town Attorney

Motion was made by Mr. Knight to Approve the Settlement of Workers' Compensation Matter as Discussed in Executive Session, seconded by Ms. Papale.

VOTE: All ayes; motion duly carried.

At this time Chairman Parisi stated, I see we have our State Senator, Leonard Fasano here. I asked my colleagues if they would allow me to allow him to give us a brief statement. I know you had your listening hours tonight.

Senator Fasano stated, thank you, Mr. Chairman, Members of the Council. This is the second time we had office hours and they are actually very well-attended, frankly. It has been a good thing and if we go from 5:30 P.M. to 6:30 P.M. and I stay later for some people who have had some issues. It has worked out very well and I will drop in periodically to say hello to the Council and If there are any questions or comments or if I can be of any service, please let me know. Right now the House is dealing with the budget tonight, I understand. I don't know what is going to happen. Should that go through

tonight, the Senate is scheduled to go forward on the budget tomorrow night. What it is going to look like, I don't know. Then the Governor is going to make his budget address on Thursday afternoon, irrespective of what is going to happen over the next two days. We are watching to make sure there are going to be significant cuts.

Chairman Parisi replied, that you for stopping by and thank you for conducting your visiting hours, especially if they are, in fact, being attended.

Senator Fasano replied, yes, we had three people today and last month I had eight. I get a lot of phone calls as well.

Chairman Parisi stated, maybe you can come on the agenda some night and give us a report forward after things settle down.

ITEM #7 Report Out from Raymond F. Smith, Director of Public Utilities Regarding the Standard Market Design for Electric Energy as Requested by Councilor Henry Toman

Mr. Toman stated, it occurred to me that it would be a good idea for the Council and for the people watching this on television to have a review of that design behind the electric energy environment, especially with the changes that are being brought by deregulation. It would be helpful to have an overview and an update.

Mr. Smith stated, I have a long version of this presentation that has about a fifteen minute intermission and I have a short version; is there a preference?

Chairman Parisi replied, yes there is and I will let you choose it.

Mr. Smith stated, before I get into the subject of standard market design which is about to go into effect as of March 1st, I thought I might give you a brief update on deregulation in the state. You are probably aware that the picture is not good as far as deregulation is concerned. There have been several bills introduced at the State Legislature in an attempt to make some changes and enact some changes. The immediate impacts are to, hopefully, protect the consumers for a couple of more years and then to try to remedy some serious problems that are currently in effect. Several years ago they used the word re-regulation. That word has been introduced as part of the legislation, that there is a desire for the DPUC to re-regulate the electric utility industry. It sounds easy; sounds like you just go back to where you were but that is not going to happen. You have a deregulated or unbundled business now; a deregulated wholesale industry. The deregulated portion that we were dealing with was at the retail level, that's where the concern is; that the retail customers are not going to reap any benefits or see any advantages to deregulation or restructuring as it is. Just as a reminder, Wallingford is not under the deregulation bill that was passed in 1998. That bill applies to the private utilities; United Illuminating and Northeast Utilities, of course, CL&P. A core part of that restructuring was to establish a standard offer which expires at the end of this year, December 31st. I think legislators,

utility executives and a number of people are very concerned about what could happen if steps are not taken. Just as an example, many people are speaking on the "re-regulation bill" and CL&P has proposed about a 10% increase to go back to the 1996 rates and, hopefully, that will allow them to bridge this time period in which there is so much uncertainty and take what ever earnings they have and re-invest it into their distribution system. It leads into this wholesale marketplace and a standard market design.

At this time Mr. Smith displayed a series of overhead visual aids explaining, as part of the unbundling process, the people who are generating these days are not the same people who were in the generation business five years ago. There are a whole new set of players, including Wallingford PP&L.

Mr. Smith explained, back in 1999 the Federal Energy Regulatory Commission (FERC) approved New England markets that requires ISO New England to develop location-based pricing mechanism in order to deal with congestion. There are certain segments of New England that have power congestion issues; part of that has been discussed and has been dealt with about the new transmission lines that are being considered for this state. Connecticut is one of the highly-congested areas, especially southwest Connecticut. In January, 2001, ISO New England filed a proposal to implement the new congestion management; a multi-settlement system modeled largely after the Pennsylvania, Jersey, Maryland (PJM) model. They use that as their model and try to fit that into the New England situation. In July, 2002, the FERC issued the Standard Market Design, SMD, with a notice of proposed rule-making which is also based on the PJM markets. In March, 2003, not only is it the target implementation but it is the effective date for the New England Standard Market Design. These are the major changes under the New England SMD that are going to be impacted; the settlement period; demand bidding; energy market congestion; reserve markets; reliability arrangements and a capacity market. Under the current market design, the settlement period is in real time only. You go on the internet, you find out what the clearing price is and that is why you will be subjected to. In the standard market design, it is a day ahead settlement. You bid in loads and you bid out your capacity. People have loads they're bidding for prices and the people who have the resources are bidding prices so it is a far more complicated system. The most important thing is; currently you have a single energy clearing price for all of New England. As of March 1st your going to have a locational marginal pricing for each location and they define the load zones (he offered a couple of maps to the Council to assist them in understanding what the difference can be). The last item on the list is Congestion Cost Allocation. As of today, all those charges are allocated to all the loads. In the future, starting March 1st, all those charges will be recovered from the local area through the locational marginal pricing. Again, that will impact the prices on those areas that have some congestion issues. Reserved markets are changing. Reliability arrangements; the socialized uplift charge, which again, is allocated to all those in New England, will be located within a specific load zone. In the capacity market there is no change at this time but there are some future plans. What does this mean in terms of pricing? Currently if you had a single energy clearing price for New England, that would be \$43.66 a megawatt

hour (mwh) and that equates to \$.0436 cents per kilowatt hour (kwh). As of today, wherever you are in New England, that price is charged uniformly to any and all buyers through the clearing price. Under a standard market design energy settlement, if you're in Maine, it will be \$.038 a kwh; Boston, \$.047 kwh; Connecticut, \$.0458 kwh. These prices are just an example, but they are somewhat symbolic of what we are actually going to see. Just to bring this into today's pricing, the average clearing price, on peak for February has been \$.071 kwh. Off peak prices have been \$.061 kwh. Some of that is related to natural gas prices which are at near record highs. Oil prices are about \$36 a barrel. All these things are influencing, but the main point I want to get across to you is, wherever you are located in New England, you are going to be charged different prices in the wholesale market place and Connecticut is one of the more expensive load areas. In the short term, we still have our CL&P contract which carries through to December of 2004. Although we have some disagreements with the supplier on their obligations and what the contract language requires. We are somewhat protected. In the long run we are vulnerable. Our prices in Connecticut will be significantly higher than if we were in Maine or in Rhode Island or the lower part of Massachusetts. When we are out into the market looking for our next power supply, we are going to have to contend with those issues of locational marginal pricing and any congestion that we might have to deal with in Connecticut. When I talked about the two remaining years or the year and three-quarters in our CL&P contract, when I said we were in a disagreement with them, an action has been initiated with FERC and the American Arbitration Association to bring the parties to the table to see if we can resolve this difference of opinion. Essentially, we believe that the contract requires CL&P to bring us back to the same relative economic position that we had negotiated for in 1994. CL&P believes that it can fulfill its obligation by providing power up in Maine at \$.038 kwh and that we would have to be liable for any additional transmission costs to get it into a congested area in Connecticut. CMEEC has initiated that action and it is in the hands of the attorneys at this point. This is not going to happen as of March 1st but there are some folks who think that the State of Connecticut will be dissected into several load zones. I showed you one price with the load zone but this would be locational marginal pricing if it was viewed as the Southwest Connecticut, down toward the Greenwich/Stamford area as being the most congested. They would pay \$.052 kwh; central Connecticut, which includes Wallingford, at the 4.958; \$49 per mwh number; and the rest of eastern and all of northern Connecticut would come in at about \$41.75 mwh as opposed to that uniform price of \$45 mwh. There was a concern that Connecticut would be split up into three zones. It is not initially. It doesn't mean that the ISO would not change or modify that in future years as more congestion problems develop, especially in the southwest portion of the state. They may be inclined to move in that direction, but that is not occurring at this present time.

Chairman Parisi asked, what causes it to become more expensive to get power down to Fairfield county?

Mr. Smith answered, there is more power used in that area than there are resources. There is a limited number of power plants.

Chairman Parisi asked, what creates the additional cost to the power company to get it there?

Mr. Smith answered, transmission. It is getting it from point A where all the resources and all the power supply is to the area where it is being used.

Chairman Parisi asked, but what causes the additional cost? It goes over the same wire when it goes there.

Mr. Smith answered, it doesn't go over the same wire. There is a limitation on those wires, that is the problem. So what they will do is run more expensive plants down in the southwest Connecticut area to satisfy the needs of those demands.

Chairman Parisi asked, why are they more expensive?

Mr. Smith answered, older plants cost more to run; older and less efficient plants. A peaking plant, typically, cost a little more to run, but they are cheaper to build. That is why the PP&L plant only runs; they ran 750 hours last year because they are more expensive to run on a per kwh basis than a base load plant. A base load plant is a nuclear plant that can produce energy in a relative position of \$.02-\$.03 kwh while the peaking plant may be \$.07 or \$.08 kwh. You want to run the peaking plant only during those periods where you need reliability.

Mr. Vumbaco asked, a while ago when you were in front of the Council and we had a major discussion on CMEEC being our only supplier and waiving the bid, allowing them to be the negotiator for the Town, you had stated that even though the current contract is not due for a couple of years, which I am assuming is the one that ends in 2004, that this was going to allow you to start chasing cheaper electricity and signing up on short term contracts to help offset some of the potential increases. How is this going to affect that and I would like to know, where do we stand on those? Where do we stand on buying power beyond 2004 at a rate that is hoping to stabilize the rate we have now?

Mr. Smith answered, because the market is in turmoil and because there is so many unanswered questions, the suppliers are kind of holding back. There's really no long term offerings on the table. We did, collectively, sign up last year for about 50 megawatts, collectively between the entire CMEEC group of which we would be entitled to approximately one-third. Since that time, suppliers are reluctant to come up with any prices that are long term because of the unknown of the SMD's operation.

Mr. Vumbaco asked, when did this unknown fact...

Mr. Smith answered, it has been developing. It really started in '99 but they started getting serious with it in '01, '02.

Mr. Vumbaco asked, was this uncertainty beginning to form when we decided to go with CMEEC and thought...

Mr. Smith answered, it was in the infancy stages. Nobody was sure that ISO was going to wind up in that position. They were talking of it. There has been a lot of opposition. A lot of people we have gone to are congressional people. I asked FERC to not push this SMD at this time because we think of all the other issues associated with deregulation not finalized and this is just another problem to fill in the process.

Mr. Vumbaco stated, I am not asking you to speculate beyond your retirement days but, the potential next contract is not going to be as good as we might have thought it would be, if this turmoil continues. We could be facing some serious pricing issues in the future?

Mr. Smith answered, we could be. One of the things that has occurred is, certain plants and Wallingford Energy has applied for this status is a "must run" designation. They have filed with the FERC for a cost of service treatment. If you recall, when we had all those sessions here and the presentations, the companies said, in the new world, you were going to build plants but were not going to be guaranteed any return. What they found is that it is not working out as well as they anticipated so if you are identified as a "must run" power plant, and a lot are in the southwest Connecticut area, you are going to be allowed to seek cost of service treatment at the FERC. Or if you take all of your original costs and you recover them just as you did back prior to 1998 when you were in a regulated environment, those costs are high. There is no risk, then, for the operator. They are saying, we built this under a risk environment and now we want to be assured that we are going to be able to recover all of our costs. If I was sitting in their shoes, I would probably have taken the same path, but the world has changed that much in just a couple of years to say that it is not working so now we want to be treated differently. Where are those costs going to come from? They are going to come from the ratepayers in these areas. There are a lot of interveners in the case already, including ourselves through CMEEC. Northeast Utilities and United Illuminating are saying, this is going to be a cost that is hoisted back on the ratepayers and it is going to impact them. It could be a 5, 10, 15 or 20% impact. The Killingly plant has gone on line but has also gone into receivership, back to the creditors. The banks have taken it back over and I think they are looking for another operator or another owner. Meriden, you are probably totally familiar with, the plant is on hold and the company has filed for bankruptcy. The other major plant in Milford, is not running for a number of reasons; I think they have some financial issues and they also have some technical issues with equipment. A lot of those companies that were all standing in line and hurrying to get in line to get these plants built; Killingly is running under a different owner. Wallingford Energy has probably been one of the more successful, if you will, in what they have originally intended to achieve except now they are looking for a different return on their investment.

Mr. Vumbaco asked, do you see a leveling of the rates that the Town of Wallingford is going to be charging our customers to the surrounding communities now? Or do you foresee that we are going to still maintain this margin of difference between...

Mr. Smith answered, we should still be able to maintain our marginal difference. I am not going to guarantee that the rates won't go up. Probably around 2005 or 2006 I would expect to see some rate increases in Wallingford. We are in a good reserve position; we have planned for this transition and we are going to be drawing down some of those reserves. I have not done the analysis yet and I am trying to get a handle on what those rates might be. Last year at this time rates were actually lower. There has been a lot of volatility in the market and a lot of uncertainty. Maybe things will sort of settle out next year and things will be more favorable to be in the market place again.

Mr. Vumbaco asked, if it is such an unstable market, Ray, then how come you feel that there will still be that level of difference?

Mr. Smith answered, don't forget that we have certain advantages; we have the best buying powers; we have some distribution cost advantages; our system is a very congested area; we have no long term debt; we don't have an obligation to return for the investors so certain elements of our business are an advantage and I think we should always enjoy a significant savings. It may not be 25, 35, or 40%; it should be in the 20-25% range long term.

Mr. Toman stated, several years ago one of the rationales for deregulation was that entities could seek cheaper power all over the country. What happened to that?

Mr. Smith answered, I am glad that California got to go first rather than Connecticut because we would have been in that disaster ourselves. It was a sales pitch. It was provided by some of the people who wanted to get into the business and said, consumers will have a choice and, like going to Wal-Mart and Kmart, you will be able to get a better price. It is an essential commodity that you really can't tinker with. You need it. If you go to Wal-Mart or Kmart, you can choose not to buy something. With electricity, you don't have much of a choice in that matter. The people who are getting into the market place had a different philosophy than the people who were already there. We have been in the business and our obligation has been to serve, to make sure that the lights stay on and that the supply is there and distribution. The people who got into the market place didn't care whether the lights stayed on, they wanted to make money. The only way to make money is to increase prices. It is a fairly simple equation; how you attract more people into the market place is raise the price. They are not in there to drive the price down. There may be some short term periods where they over-billed and the capacity falls out and people will sort of back out of the market. If the prices go back up then you appeal to more people and that's what they are trying to accomplish with the change to deregulation. I think they recognize that the price has to go up so that you would have a choice and bring in more suppliers. There were some alternate suppliers who tried to get into the market

but they have all disappeared. There just isn't any money to be made with the current rates.

Mr. Knight stated, within each state, areas within Massachusetts, there is going to be a different price set and that price; you have mentioned congestion. There must be some other drivers. There probably isn't much congestion in Maine but certainly the transmission costs to supply the scant number of people who are up there should offset the congestion that we have down here. What I don't understand is, why, in Connecticut with the intense demand for electric power that our prices are going to be so significantly higher than someplace bigger than all the rest of New England combined with very few people in it.

Mr. Smith answered, very few people but a lot of resources. There is a lot of power available with some power plants in Maine; hydro(power). They are closer to Canada so they have more access into the Canadian market place. That is the problem. It isn't congestion but you have a lot of power supply but very few customers to take it. Connecticut is the converse of that; a lot of customers in a tight area. That is why Boston is a congested area.

Mr. Knight stated, there was at one time, and it was probably a marketing ploy of those who wished to deregulate the industry but, there were plans at one time to establish enormous hydro projects in Quebec and so forth, which I understand are moth-balled at this point because of the deregulation or the lack thereof or the lack of clarity as to what the future is going to bring. Is the problem a demand and supply problem down here? We don't have enough supply to keep the prices lower?

Mr. Smith answered, you don't have the supply in the right places. Part of the intent of FERC is to force customers to recognize that they are in a congested area and they either have to build power plants or build transmission lines to solve the problem. If you are the cause of the problem, i.e., Connecticut or Boston, you should pay a higher price. That charge which has been called "socialized" or levelized across New England, should reflect that Maine is easy access; they don't have the same problems that we do. There is a push from the FERC to let this happen throughout the country. If you are in Los Angeles, I don't know if that is a good example, but if they have a congestion problem they should pay more than Central California. So it is kind of a natural effort to try and compose the price that is consistent with the issues that are associated with that area and congestion is an issue.

Dave Gessert, Public Utilities Commissioner added, there is no question that if you had a Millstone (Nuclear Plant) down in lower Fairfield county, the whole ballgame would be completely different.

Chairman Parisi added, or the plant that they wanted to build in Long Island that people didn't want.

Mr. Smith answered, that is it. I think the message that they are trying to convey is that, if that's the way you want it, then you will pay a premium for that.

Chairman Parisi answered, but we don't want it that way.

Mr. Smith answered, I didn't see "we" do. I am saying, in general, those folks who want to use the energy....

Chairman Parisi stated, Long Island doesn't want it that way and we don't want to be charged anymore. There is something unfair about this.

Mr. Smith replied, we have no control over the way the electrical transmission system is configured and part of Wallingford is a part of the southwest Connecticut grid. For example, last summer when we had some load reduction programs that were available, we were a part of that because we are part of that interconnection that is weak down in this part of the state. We are on the fringes of it; our substation, Wallingford, is kind of like the end of the problem.

Mr. Knight stated, at one time not many years ago there was a lot of talk about being able to buy power in Oklahoma for that matter and it would be transmitted somehow to Connecticut and there would be a transmission charge and everyone would be saving money like mad. Of course, that has all fallen apart. Yet, when, in the end of 2004, we have a certain requirement for power. Are we going to be unable to leverage our demand because of the instability in the market?

Mr. Smith answered, we will be competing in maybe a higher priced zone. In other words, people will say that they can deliver us power but they will deliver it to Maine and it will be our problem to move it from Maine to Connecticut. There will be plenty of people who have contracts or power facilities in Maine or Vermont or wherever they might be who would be interested in making a deal but their obligation will only be to move it up to a bus in Maine and it will be our liability to bring it down into Connecticut. There will be certain transmission costs which heretofore were kind of uniform but now will be area specific and they will be higher in this area. But that means that United Illuminating has the same problem in Connecticut. I wouldn't be surprised that several years from now there will be a rate differentiation even within CL&P to reflect higher charges in the Stamford/Greenwich area than say, their customers in the eastern half of the state. You may have multi-towns within the state. I know that the DPUC is not keen on that but if it is a true reflection on what the cost is to deliver power in that area, then truly the people down in southwest Connecticut, where the congestion is, should probably pay a higher price. It is an extension of what you are seeing on the wholesale market. I don't guarantee that it is going to happen but you could see that occurring, businesses say, o.k., eastern Connecticut has one price and western Connecticut has other prices because there are other price differentials as a result of primarily transmission issues and supply issues.

Mr. Brodinsky asked, what percentage of our needs are filled after our present contract expires?

Mr. Smith answered, a very small percentage. The number of 60 mwh represents about 15% of our needs in 2005.

Mr. Brodinsky asked, when do you expect this percentage to grow? This coming year?

Mr. Smith answered, I was hoping for it to grow by the end of this year. Once this marketplace, as I said, settles out, people will become interested and once they understand the rules and what arrangements worked, there will be some more suppliers out there interested to do business.

Mr. Brodinsky, asked, when CMEEC goes out to buy power on our behalf, are they buying transmission services, for lack of a better term, separately from generation?

Mr. Smith answered, transmission is treated separately, now, for generation except, again, it has been a uniform price, not matter where you bought it. It didn't matter where you put it in on the grid and took it off the grid. They will have to make sure that the power gets delivered to the node where it is needed; the node being Wallingford or other customers.

Mr. Brodinsky asked, did they have to go out and get transmission services from one supplier and generation services from a generator and then package that for us?

Mr. Smith answered, it is packaged currently and, yes, accept, again, it is a lot more complicated. What happens is that you have certain transmission rights as a load and certain transmission rights as a seller. You have to meld those to make they fit. Right now the price would be higher if you are located in these areas. It is primarily transmission driven differentials.

Mr. Brodinsky asked, is the price of transmission fixed by somebody or is that pure competitiveness? The right to go over CL&P's lines, is that fixed?

Mr. Smith answered, prices are established by ISO New England. They find out what everybody's hardware costs are and whatever transmission fees come through the system, they dole those out to the owners.

Mr. Brodinsky asked, do they go up and down every day or are they fixed for a long period of time?

Mr. Smith answered, fixed for a long time.

Mr. Brodinsky asked, are they going to stay fixed for the foreseeable future?

Mr. Smith answered, that is another up in the air question. That is another market condition they haven't solidified yet.

Mr. Brodinsky asked, the price for electricity, the generation costs, is that fixed by somebody?

Mr. Smith answered, no. It is pure competition except if you are designated as a "must run" unit, you will be guaranteed a fixed price. You are buying an insurance policy essentially.

Mr. Brodinsky stated, you mentioned a price of \$45.84...

Mr. Smith explained, that was just...it is bouncing around. That chart (displayed) was made up in November/December. It (price) has bounced around since then.

Mr. Brodinsky asked, what is a percentage fluctuation over a given week for all components of power; transmission and energy costs? Up and down 5%?

Mr. Smith answered, much more than that. We have seen occurrences; last summer prices were down, they were actually zero (0) at midnight; there was no cost. If you had load and you were buying power at that time, you didn't get charged. Then it goes up to \$100. in the daytime. This weekend, for example, prices were up to \$.09 kwh for what is considered off-peak energy. I don't know if you got a chance to look at the Public Power Weekly publication we get, I think it is delivered to each one of you. There was a transcript in there of what Reliant Energy was doing during the California situation. Those people were actually taking plants off line so that they could gross a higher price, create shortages and jack it (the price) up. There is always a chance that people who have control of the plants can manipulate the market like that. It is fairly volatile. Some of it is related to fuel prices that we are seeing today. I can make a real educated estimate that the power that would be produced at the gas prices today at the Wallingford plant are over \$.10 kwh and that is for the energy. That does not include any of their debt service or any of their fixed costs, just to buy the gas and produce the electricity.

Mr. Brodinsky stated, a while ago when you were here looking for a bid waiver so that CMEEC could go out and get electricity as part of a portfolio and you were describing kind of, in general, a process that if the price of power dipped to a target level, CMEEC would go out and buy a chunk, lock in a contract, that kind of a model until all of our power needs were met. Does that still pertain? Does that way of buying power still apply?

Mr. Smith answered, that is still the hope of it and why they did buy the one block for 2005 and it is a five year contract. A reliable vendor said that they would supply it for those years at that price.

Mr. Brodinsky asked, what about the old system of finding a large generator, financially secure, all the usual precautions and buying a large chunk from them on a bid basis? Why wouldn't that work, given what you know now. It is a year later from when we discussed it but why wouldn't that work, based on what you know?

Mr. Smith answered, because of the uncertainties of how this market is going to play out. Everybody is real cautious right now. There are trading rights that you get with load; there are trading rights you have on the transmission system if you are a supplier; there are bidding processes for the load; a process for the resources. CMEEC has a real good handle on that so they must, but a lot of people are just in the learning curve right now because, again, the rules have changed. Here is something we have been working with for three or four years and now they have thrown that out the window as of March 1st and we are going to implement this new process. People are reluctant to just jump in and commit to do something new when there is a change. They are more likely to say that they will wait to see how it plays out, then we will talk about long term.

Mr. Brodinsky asked, as CMEEC procures for us more and more power after our present contract expires, would it be possible for you to circulate to us some sort of a memo as to what they have purchased and give us some information on the price; put the price in context for us? Such as, this signals a large price increase; or, it looks like price is stabilizing now? If it is a minor slice, I guess maybe not but, maybe periodically? What ever way you think is rational, just so we can keep abreast of how this is going?

Mr. Smith answered, I don't think that is unusual, that's possible. Again, it is far more complicated than it used to be. You point out a major issue here; are the people you are going to be dealing with, reliable and sustainable? Risk assuredness is a major issue. Are the people you are dealing with going to be in business five or ten years from now? What is the security that's behind them? An entity may have a power plant but it doesn't guarantee that they are going to exist five years from now as we are seeing right now.

Mr. Gessert stated, you see the prices at the gas pumps; the energy rates are going off the wall and no one wants to step up right now and say that they will guarantee electricity at a specific amount and then see their fuel costs double and they are locked into a contract where they are going to sell it at a loss. That is another thing that is making the large producers jumpy right now.

Mr. Smith added, a lot of the contracts of the future want you to be responsible for your own fuel supply. Now you have to go out to a fuel vendor and lock in the price of fuel oil and/or natural gas long term. So you buy hedges. CMEEC is currently and has been doing that. They buy a hedge to lock in a cap on these prices and deal with a Morgan Stanley or some of the larger firms that provide, essentially, insurance policies on them which reduces the risk of fuel prices running up and down like crazy as they are.

Mr. Rys asked, who determines the differential zones?

Mr. Smith answered, ISO New England, they determine that is the cost area that should be isolated. There are a lot of lobbying that goes on at utilities. We want to keep Connecticut one price, we believe it is justified but other people think it can be broken down further and that is why they suggested the retail rates could be different depending on the area in which you live.

Mr. Rys asked, do you believe that Wallingford should be part of that Fairfield county segment?

Mr. Smith answered, electrically, we are connected in such a fashion that that portion of it, unfortunately is. Unless there is a change in the transmission system or there is more generation added in a different part of the state, the electrical transmission system which is not ours, is configured in such a fashion that we are a part of that. Wallingford, Devon, running down through Bridgeport and down into Norwalk are a large part of the grid and that whole southern portion coming up through New Haven.

Mr. Rys stated, I happened to be on vacation in September when they had a meeting here that dealt with transmission lines or something. Would an increase in the amount of power being able to be transmitted help decrease the cost?

Mr. Smith answered, it will solve the congestion problem in the southwest part of the state, that's one of the solutions being offered. Another solution is to build more power plants in that area or termination of transmission line and power plants. Making smaller transmission lines is being suggested now. They are trying to come up with that. CL&P, since they are no longer in the power plant business, but they are in the transmission business, say that there is a reliability problem down state. This is the solution that we think makes the engineering sense for that area. They don't know of any major power plant builders and no body has come forward and said that they are going to put a plant in Wilton, Weston and all those towns out there. I am sure there would be a lot of opposition. But that is their solution to the problem.

Mr. Rys stated, if I read correctly, Weston and a couple of other communities in the Fairfield county area is the biggest opposition to this project? I don't know why they would be in opposition if it would help bring down the power cost?

Mr. Smith answered, the philosophy of the FERC is to try to have those costs be reflective of what the actual charges should be as opposed to levelized where they don't feel the pain or brunt of the charges. If they have the same price in Greenwich as they do right next to Millstone in Waterford, they are o.k. with that. But if it costs literally more to transmit the power from Waterford down there it should be a higher charge and that is where FERC is saying, that's the idea of the state of the market design, it should be pushed down to those places where it costs more, they should be charged more.

Mr. Rys asked, that isn't a dead issue at this point anyway, right?

Mr. Smith answered, it is always a backdrop, yes.

Mr. Rys asked, it is not a dead issue as far as increasing the transmission?

Mr. Smith answered, no, it is not a dead issue. It is still on the table. There is a moratorium before the Siting Council for their decision. Legislatively-imposed, they should not make that decision before June 30th. I think someone is going to introduce a bill to extend that decision or delay in that decision for another six months.

Chairman Parisi asked, if the transmission lines are built the price will go down?

Mr. Smith answered, that is what we have been told, yes.

Chairman Parisi asked, what about the power that will go to Long Island or whatever? Who is going to pay for that?

Mr. Smith answered, some people believe that is really the ulterior motive; build those lines so there is an ability to open up into the market in New York. If you've got a plant, you can get a higher price over there and that is part of competition and where you want to sell your product. That is a natural outgrowth of this thing. They're in the transmission business so you can see where they are coming from. If they can get access to Long Island and they are willing to pay higher prices, that is where they will want to sell their product.

Chairman Parisi stated, why don't they shoulder the cost to build the lines. Why are they putting it on towns like Wallingford who are not the reason for the problem in the first place? If they are trying to get to a market place, that's fine. But they shouldn't do it on our backs.

Mr. Smith answered, if you build the line with limitations where it goes outside of Connecticut, you can do that. If you took that position, then we wouldn't have any Canadian power brought into the area or power from Niagara Falls which we are a beneficiary of.

Chairman Parisi stated, it is the question of the cost of transmission, isn't it?

Mr. Smith answered, but they are hoping to recoup their investment by being able to sell out of an area where the prices are higher and get a return for their \$500 million transmission system.

Chairman Parisi replied, which isn't new and has been paid for I don't know how many times.

Mr. Gessert stated, what you have to keep remembering is, the ball game has changed. The generators are no longer generators and Northeast Utilities/CL&P, the only business they are in now is transmission. When there is a problem, the solution they come up with is, build more transmission lines. It is the only think they have to sell.

Chairman Parisi stated, it seems to me that it just shows that it was not the best idea in the first place. That is what it is teaching me.

Mr. Toman asked, this new world of concentration of costs based on usage, population and not having plants like southwest Connecticut has yet to be tried. That is the turmoil that you were referring to at the beginning of your talk. Are you also including the increased cost of basic energy supplies? I realize that the charges you were showing are examples and what may be the cost may occur. But, they do show the direction that we do have to follow. Are those costs backed up by a certain price per barrel of oil or gas? In other words, if you were going to tell me that those costs were based on \$15 per barrel when oil is \$36 a barrel and going up, as a matter of fact, today the analyst of Merrill Lynch and Morgan Stanley, have revised what they think oil can fall down to from \$36/barrel and it is not too far under \$36/barrel and we are in an economy that is rather slow. I can't imagine what it could be if the economy picks up and we could have maybe \$45/barrel. That hasn't even been factored into some of those prices.

Mr. Smith answered, if you were to ask me if those number are probably reflective of oil prices in the \$20 - \$22 range, that is why I said that February prices, do that today, would be in \$65 range which was the average price for February. Yet, the gas price this morning hit \$11 per million b.t.u. It dropped back down to \$9 and I talked to one of our industrial customers tonight and they thought that \$9 looked good tonight. They would not have said that six months ago. Who knows where it is going to stop but the gas prices and oil prices are ratcheting up. Part of it is seasonal. It has been an extremely cold winter so, again, supplies are allegedly short. Gas reserves are down; will they replenish themselves? There is a war issue that is lingering back there. Venezuela got out of the market place so there is a number of factors contributing. Back in 1984-85 we were talking about \$40-50 oil projections then. Within several years that fell off and then it came back.. It could, again, ratchet itself back up. You are astute in saying that \$43 is not linked to \$36 oil. It is probably \$60 or \$65 electricity but I would expect after the winter that will go back down. Especially with all the rule changes, people are very reluctant to make commitments.

Mayor Dickinson stated, in my view, this is the way major policies can conflict. On the one hand we have the state; I think the legislature has been active in promoting the idea, especially in transportation, of preventing sprawl. Let's now encourage sprawl, let's have population growth where there is a lot of population and not encourage it to spread every where because that creates problems for roads and all of the transportation system. So you have that on one hand and now you have ISO setting up really some of the basics for

encouraging sprawl because the areas that are built up will have the highest prices for electricity and will encourage development of the low priced areas which will be the north and eastern Connecticut. The two policies; at some point, are in conflict.

Pasquale Melillo, 15 Haller Place, Yalesville stated, the whole problem started when the utilities were force by the federal government to sell their generation.

Chairman Parisi answered, that is true.

Mr. Melillo went on to say, that was supposed to encourage a lot of competition but it is going the opposite way. There are two important words to think of are, organized confusion. Look at the relationship between the state and federal governments. There have been constant disagreements and turmoil and it has been proven over and over again that the energy companies can out-manuever the federal government and out-skill and out-smart the state government. They are much more skilled and knowledgeable and for that reason alone, we are not going to have the proper supply and demand we should be having because there is no way it is going to be organized like that.

Chairman Parisi stated, that was an excellent statement, I agree with you 100%. I really mean that.

At this time Chairman Parisi thanked Mr. Smith, Mr. Gessert and Mr. Toman for putting the item on the agenda.

Motion was made by Mr. Knight to Adjourn the meeting, seconded by Mr. Rys.

VOTE: All ayes; motion duly carried.

There being no further business, the meeting adjourned at 8:17 P.M.

Meeting recorded by:

Rosemary A. Rascati, Town Clerk

Meeting transcribed by:

Kathryn F. Zandri
Kathryn F. Zandri
Town Council Secretary

Approved by:

Robert F. Parisi (by ER)
Robert F. Parisi, Chairman

3-12-03

Date

Rosemary A. Rascati
Rosemary A. Rascati, Town Clerk

3-12-03

Date

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