

SECOND TAXING DISTRICT COMMISSIONERS  
Regular Meeting  
August 16, 2011

Present:	Mary E. Burgess Al Ayme Sherelle Harris Mary Mann	Chairperson Vice Chairperson
Also Present:	John M. Hiscock Gwendolyn Gonzalez	General Manager Asst. District Clerk
Absent:	Maria Borges-Lopez Mary Geake Cesar Ramirez	
Public Present:	None	

Call To Order

Chairperson Mary E. Burgess called the Regular Meeting of the Second Taxing District Commissioners to order at 7:00 p.m. on Tuesday, August 16, 2011. The meeting was held at South Norwalk Electric and Water, One State Street, South Norwalk, Connecticut.

Acceptance of the Minutes

Commissioner Burgess: "I will call this regular meeting of the Second Taxing District Commissioners to order, Tuesday, August 16, 2011 at 7:00 pm. I need a motion for acceptance of the meeting minutes of July 19, 2011."

Commissioner Ayme: "So moved."

Commissioner Harris: "Second."

Commissioner Burgess: "Any corrections in the minutes? All in favor?"

Commissioners simultaneously: "Aye."

REGULAR AGENDA:

Item 3: Water Rate Increase - Discussion

Mr. Hiscock: "Alright now in your packet you received one of these which is a draft and it was stamped draft. We decided to do it as a draft at this point so that we can; one we can answer questions and two provide any additional information that the commission would like to see. I'm just going to start off; I mean obviously you've read the Executive Summary and the beginning of it and its just recommending a 25% across the board increase on water rates. That's a very significant increase as we all know."

Commissioner Mann: "Yes it is."

Mr. Hiscock: "It's not a small number. It's a small number when you look at it from the perspective of what it cost. The average residential customer the water is so cheap but still it's a big number and certainly 25% attracts a lot of attention. Here again we go down to the introduction and some of this is boiler plate. It's there for others to read. When we do this kind of report we'll make sure it's detailed enough so that someone not familiar with our business can figure out what we're doing and why we're doing it. So it lays out you know, our debt. It talks about the charter, it talks about taxing power. It's just a general description of the current situation. We move on to page 3. We talk about the rate history and how it has changed over time where we used to have large rate increases every four, five, six years and then we went to annual very small ones and now as you can see we're recommending to go back to one very large increase. And then there is a table in the back which simply shows the history in Exhibit A - way back all of the increase from 1970 to 2006. It's interesting. You can read through it. It's probably interesting to somebody in our business because it talks about how we went about doing certain things when we change rates. I think the important thing really starts on the bottom of page 3 when we talk about the water fund. And I'm trying to be sort of consistent in explaining why we're very careful about the difference between the water fund and the electric fund. One, the charter says we have to do it and quite frankly the charter says we have to do it because that's what we wrote when we modified the charter because that was something we've done recently to create the budget in structure in the mid 90's. That was mostly the charter revision commission at the time and Frank Murphy of Tierney, Zullo, Flaherty and Murphy and myself really authored most of that. But it talks about why we need to keep them separate. And it's generally the way most Government forms work that run utilities. They have separate funds for each of the utilities so they can keep track of it. There is a principle in rate making that they've got to be fair equitable rates and if you co-mingling between two utilities you have a hard time dealing with that concept of fair equitable if one utility is subsidizing the other. We talked a little bit about how the water utility is cash poor at the moment. We've been through a huge construction project in a twenty nine million dollar project that started way back in 1999 and essentially went ten years from concept to completion. And because of that if you look at our finances over time in the water utility, they are unusual, they are skewed. We have a lot of cash at times. We have no cash at times. It has to do with construction, the loan and the fact that we were taking money out of rates to pay for about five million dollars of the plant as opposed to boarding for all of it. On page 4 I talk about, and this is important to us, the difference between the rate base for the electric utility and the rate base for the water utility. And another reason why we shouldn't co-mingle funds, the electric utility is 95% residence of the Second Taxing District. Your electors in the residential class and even the commercial industrial class while the owners of the businesses probably don't live in South Norwalk, they are doing business in South Norwalk. The water utility is very different than that. The water utility serves West Norwalk, Rowayton, Silvermine section of Norwalk, portions of East Norwalk, portions of Southwest Wilton. An interesting statistic and I didn't put a table in here for very specific reason but about 75% of the water utility's revenue comes from outside of the district. 75% comes from outside and about 2/3 of our customers are outside the district. Certainly another reason not to co-mingle between electric and water because then you have totally different customer basis subsidizing one another. If both utilities serve the same geographical boundary and have the same customers it wouldn't be a crisis if one utility charge a little too much and the other charge a little too, didn't charge enough because it would be the same people paying, but that's not the case. And that's an important distinction here. The other issue related to that in general terms is we charge a 50% premium to non-Second Taxing District customers. That's probably one of the highest premiums for non-customers outside of the

geographical boundary in any of the water utilities in Connecticut. There have been attempts in the legislature to change that. It doesn't have legs. It never gets anywhere. For the last fifteen years so people who live outside of Meriden have been upset and Meriden I think only charges about 10% premium. The reason for the premium is an important distinction. If something happens in the water utility that took a tremendous amount of money, the only people the taxing district could tax to make up the short fall are residents in the district. So we call it debt risk premium. It's something that from a legal perspective is not a problem. But 50% is about the high end. I don't think there is anybody who does more and several utilities do that. First Taxing District also does the same thing. And we talk a little bit about the water funds having declining cash balances and projecting negative balances and we know that. We've talked about it at several meetings. So, to resolve that trend we need to bring additional cash into the water utility. Page 5 we talked about the district debt. We issued debt three times in modern time. The district issued debt way back in the 20's and 30's for factory buildings and there are some old debt issues from way back then. I don't talk about them. They're just ancient history. SNEW's water debt, and actually was the Taxing District water debt in the 70's built on 1970 filtration plant. Then in the 90's when we acquired the New Canaan reservoir and land and pipeline and built the pipeline to bring it to Wilton to our filtration plant we issued debt. Debt was fairly small. In 1995 it was 4.6 million dollars in a 15 year payout. And actually it was 97 by the time we actually collected the money. And that will be paid off at the end of this coming fiscal year which is a good thing and then obviously the big one that we're talking about now. We built the filtration plant. It cost us 29 million dollars. We borrowed money from the state. We borrowed it at 2.04% which was great. The state honored our double A1 credit rating and gave us the best available interest rate. Loan closed in 2009 and we started to pay off the debt. Now, this is where we need to think about sort of debt as an obligation of the district even though we pay it, a general obligation of the district which is generally tax based, although we pay it through revenues. Future capital projects SNEW water has no capital projects planned at any size or significance other than routine pipeline placements as they fail. We have a brand new filtration plant. We have updated pumping stations and we really don't have any major projects to spend money on. SNEW electric though, as we know, is building a 1.15 to 13.8 substation down on Martin Luther King at the old St. Ann's plus the new parcel. It has an in service date 2013 of November and a preliminary estimated cost of about ten million dollars, starting to get big numbers again. And just stop me at any point as we go through this cause I know I'm sort of talking a lot about the issues."

Commissioner Ayme: "Through the chair, can I stop you?"

Mr. Hiscock: "Sure."

Commissioner Ayme: "When you said the 50% premium, 50% of what?"

Mr. Hiscock: "50% markup."

Commissioner Ayme: "That's a total 50% markup."

Mr. Hiscock: "50% markup so if our rates are a dollar inside, they are a dollar fifty outside."

Commissioner Ayme: "So, so outside its total rate for each customer."

Mr. Hiscock: "Right, a 50% markup."

Commissioner Ayme: "Okay, that's a markup and that's a state mandate?"

Mr. Hiscock: "No, that's our choice. We made that decision because of the fact that our residents in the Second District are responsible for the debt, but yet we can't tax outside the district to cover that debt if there was an economic situation where we just couldn't come up with enough revenue from water."

Commissioner Ayme: "And that's for emergencies and..."

Mr. Hiscock: "No it's not for emergencies, it's simply the price we charge and I think you can also assume there is some politics involved in that. I mean, I'm not saying that's what it is, but I think that's a pretty safe assumption since the electors outside the district do not vote for the commission and this is historic. This has been around for as long as anybody can remember that 50% markup for out of the district. And you can understand why when I say to you 2/3 of the customers are outside and 3/4 of the revenue comes from outside. And one of the reasons 3/4 of the revenue comes from the outside is because we charge more outside."

Commissioner Ayme: "The debt that will be paid off this year, this fiscal year?"

Mr. Hiscock: "Yes."

Commissioner Ayme: "For what?"

Mr. Hiscock: "Its only 300,000 a year and you'll see that in one of the tables in the back."

Commissioner Ayme: "300,000. When we built the new filtration plant the debt was based on an A-1 rating?"

Mr. Hiscock: "AA-1."

Commissioner Ayme: "Oh AA-1. Okay."

Mr. Hiscock: "AA-1."

Commissioner Ayme: "AA-1."

Mr. Hiscock: "Next one below is AAA."

Commissioner Ayme: "Okay. And..."

Mr. Hiscock: "And that's an important issue."

Commissioner Ayme: "Okay, yes. Alright, thank you."

Mr. Hiscock: "Now, as I started to say that the substation project is going to 10 million dollars and while I didn't talk a lot about electric in here because this was a water issue I still have to co-mingle electric so you understood the issues as to why we're going about it this way. And the project is about 10 million. Now, we've been meeting with Northeast Utilities and a portion of this project is going to be called PTF which is Pooled Transmission Facilities that everybody in New England

pays for. So our out of pocket may not actually be 10 million. It may be more like 8 million, in that range because CL&P and NU will build the other 2 million dollar portion of it and then charge ISO New England accordingly and get a rate of return. Comments on the middle of page 7, the middle paragraph. The Second Taxing District was last rated by Moodys in 1997 as AA-1. The city is rated currently AAA. The city is certainly a good financial structure, and you know we're also in an area, even though we have some poor people that live in the city, generally the city is reasonably affluent and that adds a lot to the rating. It's well managed so it's got a good rating. We are underlying debt so we can't be rated as high as the city. We're one step down from the city. But I think it's important that if we're going to use debt, and we haven't fully decided that yet but it looks like we're going to, if we use debt it's really important to have a good credit rating. So that's really an important issue. The bottom of page 3 we started to talk about the district's credit rating and what makes for a good credit rating. The customer base served that its stable, the quality of the company and its employees and staff and its long term history is important. The rating of the greater community of Norwalk is extremely important, the relationship of SNEW's rates to surrounding utilities. Rating agencies get very uncomfortable when a utility charges significantly more than surrounding utilities because it just makes everybody unhappy and there's always pressure to keep rates as low as possible when you're the highest rate. So, SNEW's rates in relationship to surrounding utilities are very important and the next one that I indicated here is very important, the ability to alter rates without significant interference. We don't go to the DPUC. The rates for service are set by this commission and there is all you have to do is the fair equitable and reasonable and that's the test of the law. That's all it is. Another important thing is the long term financial condition of the district and the trend of where we are headed. You know some of it is subjective. Some of it is not subjective. But generally those are the things that will affect the credit rating. An important issue right now is the, let me back up, let me back up one minute. We have the AA1 rating issued by Moodys and I have a typo here. One place says 95 one place says 97. I think it's actually 95. I'll get that straightened out in the final version. In 2008 Moodys contacted me and we talked to Moodys about our credit rating and they have a funny name for us. They said we have a quirky credit which means we have an unusual structure. They're not used to rating these kinds of agencies like ourselves okay. They went through and look at everything and decided not to change our rating and did not put us on a watch list. The simply said we're going to leave the rating where it is. It's fine with us. But before you issue debt again, you're going to get re-rated. The reason we didn't have to get re-rated when we got the loan from the state is because from the credit agency's perspective that states debt not ours. Even though we agreed to pay it it's the state's debt not ours because the state issued the bonds to give us the money. One of the big issues is the coverage ratio and the coverage ration there's a lot of little quirks to it in a funny ways you might calculate it but the basic issue is after you pay you take your money in, that's your revenue, you take all of your operating expenses and take it out and you end up with a net cash. Positive net cash. Hopefully, a positive net cash. You take the net cash and divide it by the principle in interest on your debt and you come up with a coverage ratio. If you need to pay interest in principle a million a year and you have net excess cash from operations of a million a year your coverage ratio is one. That is the bare rock bottom minimum for anybody because if you're less than one you're essentially bleeding cash. It means you're taking money out of the bank to pay off the debt. That is just awful, okay. Coverage ratio is in the 1 1/2 to 2 range on normal, for companies that issues debt. And there is nothing terrible about that. I'm going to sort of stop here for one minute and go to Exhibit B-1 which is if I can find it, right behind the first yellow sheet. Maybe it's the second yellow sheet, no, right behind the first yellow sheet. Okay, Exhibit B-1 is Utilization Of Operating Revenue Water Fund. Now, it looks like this. It's a sideways chart. Even though when you deal with coverage ratios, the rating agencies will look at it as an aggregate district wide number. But for the purpose of setting the water rates you really need to look at it from a water fund perspective

issue. Electric has no debt whatsoever right now and if we added electric revenue our net operating cash into this our covered ration would be okay. But you can't do that because then one group subsidizes the other and that's wrong. The right hand column is Fiscal Year Ending 2003. Operating revenue of 4 1/2 million, operating expense cash base 3 1/2 million sort of bold down towards the bottom 997 available operating cash, okay and total credit service above is 447 thousand. You divide 997 thousand by 447 thousand and you come up with the number on the bottom of the page, 2.23. That's a great coverage ratio. You don't, that's wonderful. Now, as you start to move across the page you'll see that it was pretty stable, moves up to 2.47 then to 325 then 263 and then jumps up for two years. It jumps up for two years because we increase rates significantly in those two years. So we brought more cash in. The debt was about the same. But we brought more cash in so now we've got a great coverage ratio. We move it to 2009. Now we starting to pay the dept off and you can see that the debt is creeping up at 483 because we were just starting to pay off the loan and then the next year comes along, .57 and remember what I said when you're below one you're in trouble. And to give you a good example of that you look at the operating revenue in 2010 and it was 6.5 million. The expense was 5 million which left available cash of 1.5 million. The debt service if you go up a little bit is 2.7 million. So the difference between those two numbers is 1.2 million dollars. That comes from cash. That's not a good situation. Now, even though that's not a good situation remember we raised our rates in 2007 and 2008 to save money to start paying debt service. So while a rating agency is going to look at this coverage ratio it's very easy to explain to them why 2010 was that low, because we were collecting cash in 2007 and 2008 to cover that big debt number. And here is the bottom line as you go through this. If you look in the column of 2011 it says Budget, okay. That's based on our approved budgets and you move down and you see the debt service total drops down to 1.8 from the previous your of 2.7. Remember, when we finalized the loan we were required to pay one year's principle up front, okay. So, that really was a chunk of cash that we were saving for. So, in budget years 12 and 11 the debt service is 1.8 million dollars. It's level. We chose a levelized debt situation. If you go through and you look at the projected cash you'll see that in 2011 we were at 6.9 million operating revenue projected. We dropped in 2012 to 6.6. That's three hundred thousand down. Has a lot to do with the current economic situation. You drive around the city and there are vacant spaces all over the place. A lot of businesses have closed. A lot of restaurants, a lot of bars, a lot of those kind of businesses are closed. But for the budget year of 2011 and 2012 you can see that the coverage ratio is .55, .61, not a good situation. If you move backwards to Exhibit B-2, this is a performa coverage ratio. This is an estimate of what it would be if we increased our rates by 20%. And we're going to go sort of back and forth. But the coverage ratio for 2012 is 1.36. It will be slightly less than that because of a start date of 9/1 and maybe 10/1 or 11/1. But in 13, 14, 15 and 16 you can see that the coverage ratio was 1.67 because the debt service changes between 12 and 13. 12 is 1.8 million and then you can see for 13, 14, 15, 16 is a levelized debt at 1.49. The reason for that is in 2012 we pay off the New Canaan loan. That's three hundred thirty something thousand dollars not in the debt service anymore. So that's one of the reasons the coverage ratio picks up. If you move to B-3 which is behind the next yellow page, this is the coverage ratio with the 25% rate increase. And there it gets the 1.75, a comfortable coverage ratio. I just want to give you an assurance that a large rate increase is going to stabilize the coverage ratio, bring it up to a good margin and certainly do a lot for a future credit rating. I'm going to go back again now to page 8 and I tried to summarize, and the tables are all in here and I know that the tables probably drove you crazy. The tables, the charts and the graphs, but it's the backup that allows you to make these kind of statements. And one of the issues about SNEW water rates for the last four years have always been below, at or below the median. Meaning half of the companies were more than us. Half of the companies were lower. At times we were more like the 30 to 35 percentile sometimes even lower than that. At the 30 to 35 percentile its 60 to 70% of the other utilities are higher than

us. There is a whole series of... Now it's Exhibits and that's got to get changed to Appendix. 'Gwen, do you want to note that for the final version?'

Gwendolyn Gonzalez: "What page is that?"

Mr. Hiscock: "Page 8. Exhibit E through K and it's actually Appendix E through K. But we show SNEW's rates compared to everybody else's rates in a whole pile of a different ways so that you can understand where we would end up if we had a significant rate increase. If you go to the first big fold out page and I don't want you to read the detail here. This is just the detail. It's just all of the other rates in Connecticut and it's just a rate table. You go right behind it – this is the table I want you to look at. It says Exhibit H 20% on the bottom. It's a graph with a bunch of colors just like this okay Exhibit H 20%. This is just a simple graph of everybody's rates in Connecticut. Towards the bottom of the grouping you'll see a solid green line. That's SNEW's current inside rate. And you could see it's toward the bottom third. You know it's not bad. In fact it's kind of nice. And the solid yellow line right in the middle is SNEW outside. Then we superposed SNEW with a 20% increase inside which is the solid blue line above the solid green line. Still, we're still below the median. We're still not doing bad here. And then this darker blue line further up the page is outside the district. Now you're starting to see what pressing towards the top two thirds. Then we have the same charts for comparison in Fairfield County, and I'm not going over every one of these because it's just tedious. You can certainly look at them at your leisure. And then we have to compare to investor owned companies. One of the good things is we won't end up at the top no matter what we do. Exhibit K is compared to municipal utilities. And once we get to that level we're kind of high for the outside. The inside we're still at the median level. As we go further back the next set of charts, the graphs, you'll see with the 25% rate increase. And again take a look at these when you get a chance, but you'll see that even with the 25% rate increase we're still in the comparatively good situation. We're certainly right in the middle with respect to the inside district rates and we're at about the two thirds level for outside. And I only provided 20 and 25% and you'll see why shortly but those are all the graphs and numbers. 'Yes' [addressing Commissioner Ayme]."

Commissioner Ayme: "Through the chair, I understand exactly what you are saying in terms of the rest of the state and I know we're below most of the state utilities, water utilities. But the impact as I see it is going to be, that's going to be a local impact."

Mr. Hiscock: "Yes, and let me, I didn't spell it out in the report and I probably should have quantified that for you and I didn't. So we're going to find the table."

Commissioner Ayme: "That's my interest right now in terms..."

Mr. Hiscock: "Yes, okay. And let's take the worst case scenario. If you can find a sheet..."

Commissioner Mann: "I actually saw one."

Mr. Hiscock: "It's entitled Exhibit E 25%. It looks like this. It's probably two thirds of the way towards the back. In the very bottom it says E 25% okay."

Commissioner Ayme: "Okay, I got it. I got it right here."

Mr. Hiscock: "And behind that is an Exhibit F 25% okay, the current water rate comparison on E, total quarterly price for 18,000 gallons. 18,000 gallons is the gallonage that we all use in our business as the average consumption for a single family residential building and its, you know water usage is all over the lot but this is the one we all measure each other by okay, 18,000 gallons. It's a fair amount of water. It's probable twice what any of you would use if you had a single family house. Our quarterly charge on page Exhibit E 25% is \$68.67. If you flip to Exhibit F with the 25% increase it jumps to \$85.83. The difference between the two of them is \$17 every three months. Now that is for a fairly high user, okay."

Commissioner Ayme: "At 18,000."

Mr. Hiscock: "At 18,000 gallons. So if you were an 18,000 gallon user which is reasonably high utilization it will cost you about \$5.75 a month more. Now that's in the district and they are highlighted in blue on each of the two graphs. If you are out of the district, if you are not a resident on that same graph, E or same chart E, you'll see \$103 and then you go to F the 25% increase its \$128 so that is \$25 every three months. So that's closer to \$8 per month."

Commissioner Ayme: "Do you have a chart here at 20%?"

Mr. Hiscock: "I don't believe we put a 20% chart in because we were trying to show the high end recommendation. No we did not."

Commissioner Ayme: "Okay."

Mr. Hiscock: "So if you are in the district it's about \$5.50 or so. I think I said per month and if you are outside the district its \$8.00 and obviously \$5.50 with a 50% charge is about \$8.00 okay. So that is the monthly cost per single family high end user or let's say moderate to high end user. Now these vary widely because if you have all modern plumbing fixtures in your house, you use way less water. If you have an older house with the old five gallon toilets and three gallon a minute shower heads and three gallon lav sinks and five gallon kitchen sinks per minute you use a lot of water. If you have a relatively modern plumbed house you use significantly less. That's one of the quirks that we all end up in this business that we've driven down the plumbing standards to such low flows that anybody who has new fixtures uses way less water than somebody who has older fixtures. It's pretty significant when you look at the fact that we use less water now in the district than in 1970. We were averaging five and half million gallons a day. We're down to almost five million gallons a day now and its all plumbing efficiency standards. Populations increased, the housing densities increased in our service territory, usage has dropped dramatically. And is all has to do with plumbing standards. So that's, in equity I can't work around that. I can't work around that in equity."

Commissioner Ayme: "When someone calls the water company and they request someone to come over to their house to make an inspection and make some suggestions as to how they can reduce water usage, by the things that you mentioned what do we do?"

Mr. Hiscock: "We probably will have a discussion with them. We won't go to the house."

Commissioner Ayme: "You won't go to the house."

Mr. Hiscock: "If we can work it through over the phone and the discussion is really about plumbing fixtures in the building and if in fact you need to replace your toilet because its old and you go to the 1.6 toilet which is the only one we sell in Connecticut, you're going to save a tremendous amount. The issue is, if you have to change out that toilet you're not going to do it, because by the time you buy a good toilet, have a plumber come in you got to be in about the 300 - 350 gallon range to redo that toilet. It would take years and years and years to cover that."

Commissioner Ayme: "That would take care of the bill for four years."

Mr. Hiscock: "So the plumbing standards and this is why we don't run out and do everything. The plumbing standards work over the long haul but they don't solve the individual usage problems. Now, we did in the 80's and 90's go through residential retrofit program where we went out and installed the low flow shower heads in all the showers, low flow faucet aerator so we took care of the showers. We took care of the lavatory sinks we took care of the kitchen sinks. And we just went ahead and handed kits out and did all sorts of things. We even put toilet dams in the toilets but they weren't terribly affective. But there is really little you can do short of just replacing plumbing fixtures. That's why we don't often go out. There's no real reason to go out. We have the conversation and go from there. If there is a leakage situation we can tell because when you get into significant leakage we will, and we can tell by looking at your flow and we look at your utilization and we look at your comparative bills over the years and if there is a difference we will then come out. If you can't find the leak we will come out and find it for you, so that we will do."

Commissioner Ayme: "The reason I'm asking, I do recall in the 80's in the early 90's when I was managing multi-family property here in Norwalk that, I'm going back quite a few years now. I called at that time, I called the water company at that time and I received a whole bunch of shower heads at that time."

Mr. Hiscock: "Right."

Commissioner Ayme: "This is maybe '92, '93."

Mr. Hiscock: "Yes, probably even earlier than that."

Commissioner Ayme: "I received a whole bunch of shower heads for all the property I was managing and quite a few units and that's why I was asking, if there is anything that we can do to alleviate in the event that someone calls and they want inspections or suggestions or something that they could possibly do in that sense."

Mr. Hiscock: "Yes, we were pretty much fully saturated with all those kind of devices because cause we gave them to every customer. We gave them away to everybody. The other thing that does happen with those, and there aren't a whole lot of them but anybody who takes advantage of the HES (Home Energy Savings) program which you can sign up for, they also do the water savings at the same time."

Commissioner Ayme: "Do we have brochure available saying...?"

Mr. Hiscock: "It's all in the website I believe."

Commissioner Ayme: "All is on..."

Mr. Hiscock: "Yes it's on our website."

Commissioner Harris: "The lobby."

Mr. Hiscock: "Yes, and they are in the lobby too."

Commissioner Ayme: "Okay, I haven't seen that in the website. I've check the website. Maybe I missed it."

Mr. Hiscock: "Yes, you might have. It's there. I don't know which link. I don't do it myself very often so I don't know but there is energy savings."

Commissioner Ayme: "But it is there."

Mr. Hiscock: "It is there and they do the water at the same time they do the electric. They do actually gas, water and electric simultaneously. And it's part of the conservation fund monies that we collect from our customers plus what we get from the state and the Federal Government to dole out. And I don't have the utilization of how many people take advantage of the HES but there are a lot of them in our customer base."

Commissioner Ayme: "If I may ask another question."

Mr. Hiscock: "Sure."

Commissioner Ayme: "On your charts B-1 and B-2 I mean, excuse me B-2 and B-3, the difference seems 1% is clearly the indicator; the indicator is 1% in, as a coverage ratio."

Mr. Hiscock: "You mean the bare minimum coverage ratio when you're not taking money out of the bank to pay a few debts is 1.0."

Commissioner Ayme: "1.0 okay. Alright. The difference between...I see that at 20% will be covered through, according to the estimate that we have here, through 2016."

Mr. Hiscock: "Yes."

Commissioner Ayme: "And at 25% will be covered through the same period except that it will be a little bit higher."

Mr. Hiscock: "A little bit higher. That's correct."

Commissioner Ayme: "A little bit higher. What would, I know the difference is a few of percentage is just a fraction of a percentage point."

Mr. Hiscock: "Yes."

Commissioner Ayme: "If we kept that 20% how would that reflect in term of the rating because that is what we are looking for?"

Mr. Hiscock: "I don't think there is a significance difference between .67 and, 1.67 and 1.75 from a rating perspective. The 25% recommendation is we haven't gone to the last set of tables and that's the driver."

Commissioner Ayme: "Oh, okay."

Mr. Hiscock: "If you look at page 9 in the recommendation it tells you to go to Exhibits L and M for a 20 and 25% increase and that's the real driver. They are at the very back of the, and they look like the number you always look at budgets time. You know these big charts okay. Exhibit L is a 20% increase. It's just exactly the numbers that you look at every time that we go through the budget process so we're going to skip the first page and go to the second page. And here is the issue. At the bottom of the page, and we are going to have to put a bigger margin on this so you can read it. At the second to the last shaded line and we'll put the headings on the top of this too."

Commissioner Mann: "Fund Balance."

Mr. Hiscock: "Fund Balance okay. In the original 2011-2012 which is the first column shows a negative balance of 1.7 million including our capital program. If you look at the next column over it would be revised based on increasing the rates by 20% and it shows a negative 460 balance at the end of 12. It would be worse than that because these number presume that we did the rate increase July 1 and we did not. And as you can see as we move across the page all the way out to 16 we only end up with a positive 23 thousand fund balance. Now this includes a capital program, a meaningful capital program and we'll get to that in the end. And then if go to Exhibit M and look at the same location you will see the same set of numbers, well you'll see the same calculation with significantly different numbers. And the numbers show at a modified minus 143 with a 25% increase it would actually be worse than that again because we're not going to implement July 1 and then in 13 going to 181 thousand, at 14 391, 15 a million and 16 a million seven. The reason we drove it with the recommendation is because if we're going to be issuing debt in 2012 -2013 I really don't want to be in a position with a negative of half of million water fund budget. I want it to at least be in the positive and the only way we can get to the positive was to drive it to 25 and come up with 181 thousand positive balance. And I know after we go through this discussion you're going to have to go back and look at these numbers and think about all of these issues. That's why I really wanted to do it this way. I really wanted you to have the opportunity to think, read, listen, think about it and reread it."

Commissioner Ayme: "So you're anticipating a future obligation. That's what you're doing."

Mr. Hiscock: "Now, there's some good news here at the 25% range. You can see that as we get out into further years we're building cash rapidly. We don't really need to do that. But the reason we're building cash rapidly is if you look at very bottom of the page on Exhibit M we're showing a 25% increase in 2011 and 2012 and 3333 each year thereafter. That's not the recommendation. I want to make that clear."

Commissioner Harris "Okay."

Mr. Hiscock: "And what I'm suggesting will happen is as we do this and we start to build cash we're probably not going to do those increases as we get out in the later years. Part of what I'm doing here is showing that we have a plan and this is the direction we're moving and we're improving the water fund by itself. When we go to rating agency time we'll be sitting in a room

with three or four of us on our side of the table and five or six on the other side of the table and while we did this presentation in 55 minutes it will take 3 hours to do it for them. And we need to show them where we are, what we're doing and if we already done the 25% increase the others are small and they will consider that not to be an issue. If we waited until rating time and said 'oh by the way we're going to raise our rates by 25%' they're going to say until you've done it, you haven't done it and you can't show the cash. So it's important to do it significantly before and get back to a positive cash balance in the year that we go to the rating agency. That's extremely important. So to answer your question, it wasn't the coverage ratio that drove the recommendation. It was the cash balances that drove the recommendation, the projected cash balances. And the last page which isn't here, it will be in the report, sorry about that, is the capital budget and we've got a capital budget prepared for you. Five year budget will show that we are not putting ourselves in a position and being unrealistic. In that time frame we kept 2 half million dollar tank paintings. I don't know if anybody has been by our Price Street tank lately up behind Swanky Franks where the bar Rowley is, Corner of Scribner and Connecticut Avenue we have a tank a squat low tank. More orange than it is blue. It's in extremely bad condition and needs to be painted so we have two tank paintings in that time frame and they're half a million dollars apiece. They are not inexpensive. Those kind of improvements are in here okay, so we're not gutting our entire capital program. And that's why you have a coverage ratio over one, because you have no capital program if your coverage ratio is one because there will be no money left over so to have that capital program and have a cash cushion that's where you get to this .5 additional to another one additional to be the one and half to two. So this is draft and we will modify it in the next couple of weeks so you'll have a final version. We will have the Performa five year capital budget in here so you can take a look at that. We'll make a few corrections on the Exhibits and the tables. Is there other information that you think will be helpful that we could add to this? I mean I think it's fairly thorough without getting overly complex."

Commissioner Ayme: "My, through the chair, my last question would be, I think, or next to the last, how do we compare to the local utility?"

Mr. Hiscock: "Our neighbor to the north and the east?"

Commissioner Ayme: "Yes."

Mr. Hiscock: "The First Taxing District, we were very high compared to them up until last year. And they hired a new manager, an old friend of the city or a faux of the city at time, Dominic DiGangi, a professional utility DPW manager. They raised their rates significantly and they are now I think 10 or 12% below us. You can see it in the charts and having discussions with them it's not their last increase and they are going to again increase their rates. I cannot tell you the time frame. They have not committed to a time frame. So we will jump above them again significantly. I think they will follow suit within a year or so and have another significant increase."

Commissioner Ayme: "When they will be implementing what other increases they're proposing."

Mr. Hiscock: "Yes. They have a very very very weak capital program for many many many years. The state of New York and the state of Connecticut went after them for dam safety issues, not critical ones but things that had to be fixed. And the first phase of their capital program is to bring their dams up to reasonably current standards. They raise their rates to do that. Their next issue is going to be their filtration plant. They're going to have to significantly modify their plant fairly soon and when they do that they'll jump again significantly. But they are lower right now and if we

make an increase in the range we're talking about, I don't think we have any choice; we will be significantly higher than them again. And you can see it right in the graphs."

Commissioner Ayme: "Would you say we're providing water to approximately 50% of the population?"

Mr. Hiscock: "Yes."

Commissioner Ayme: "Okay, in terms of service, how do we compare to the First Taxing District?"

Mr. Hiscock: "Service is a funny measure."

Commissioner Ayme: "Okay."

Mr. Hiscock: "And I'm going to say something that people will look at you funny when you say it until they really think about it. 95% of your customers know nothing about the utility, care nothing about the utility, so they get their bill and it's reasonable and they pay it. And there is not real measure of service because you don't provide them any service other than they turn on the tap and the water comes out and it's also true in the electric business. You flip the lights on and they work. Unfortunately we got a few too many situations where they haven't worked but it's not our fault. So service is a funny measure because when you do something for the customer they look at you and they value their service but for 95% of the customers you do nothing other than provide either the power or the water. It's not like a business that has contact with customers and the other comment that you make, the best customer from the customer's perspective and the utilities perspective is the customer you never talk to because (1) they're not mad at you, (2) they're paying their bill and both sides of the equation are happy. So it's hard to answer that question for you."

Commissioner Ayme: "Alright. In terms of public relations can we, can we make it more public, known to the public in terms of the...that we have a newly built...built basically filtration plant which is a state of the art, how they cost so much money and whatever and put out a more visibly these things that people do where they could save in their water usage? In terms of what you mentioned we have a new website. What I'm talking about is perhaps..."

Mr. Hiscock: "We certainly can do that. It's not difficult."

Commissioner Ayme: "Perhaps including some like a news letter with the bills and make it more public and make it known more known to the public or to the users, things like public relations or..."

Mr. Hiscock: "We certainly could do it. People have various opinions about that. I can tell you that I've never ever ever ever read anything I've gotten from my CL&P bill, ever."

Commissioner Mann: "I don't mean any harm but all I do is open it and throw it in the garbage. I don't read it."

Mr. Hiscock: "Some people do read it but it's a very small percentage of the population that even pays any attention. And I'm not saying that what you're saying is not a good idea, I'm just simply saying that we don't have a lot of people who want that."

Commissioner Mann: "If you send it under separate cover they may read it."

Mr. Hiscock: "Here's what we do and we've always done it in the past. When we raise the rates we send an individual letter. We write a letter to them and we explain what we're doing. We say why we're doing it, what the drivers are that changed the costs and, you know, while we regret doing it we're doing it and everybody gets a letter, you know, I sign the bottom of the letter saying 'on behalf of the commissioner, you know....' And we don't try to put it in stuff that we literally send them an individual first class letter. It goes to every single customer."

Commissioner Ayme: "And we could include some information with, in that mail."

Mr. Hiscock: "Yes. We would indicate that you know that the primary cause of this increase is debt service for the brand new 29 million dollar facility. Power rates; although power has dropped recently a little bit, but in general it's increase significantly, chemical costs, and things along that line. So yes, we would do, it's about a page and a half. We put it on one page because it's you know both sides."

Commissioner Ayme: "Thank you."

Commissioner Burgess: "Commissioner Harris what time do you have to leave?"

Commissioner Harris: "I would say about 8:15."

Commissioner Burgess: "Well, do we want to wait to start this other presentation or..."

Mr. Hiscock: "I believe the GIS Infrastructure Distribution Policy should take about five minutes."

Simultaneously: "Okay."

Mr. Hiscock: "At best."

Commissioner Ayme: "And then we take a break."

Mr. Hiscock: "Tab 4 – There's an explanation that we put in here for you. The policy that we wrote is the next two pages and it says draft August 1<sup>st</sup> 2011. Here is the bottom line. We're spending a lot of money on very sophisticated software driven computerized mapping system for both utilities. The water system has a mapping system from the 90's. It's clearly not state of the art but it was quite a good system when we put it in. The electric system we really never spent the money on mapping and it's kind of funny. The water utilities in general I've had done that much sooner than the electric utilities. And I don't really know why. It's just things happen at certain industries. Our electric system we have very poor records, very few records. We hired a consultant. We're doing a GIS implementation. We're putting an RFP out to do field collection of data. The problem with all of this is like any piece of information that you create in a public government form in Connecticut its FOI accessible. Now, I could look at any electric or water distribution map and figure out very very quickly how to disable the system by simply turning valves, by shorting out electric system components. There are a lot of things you can do to damage a system if you understand it. It's very hard to go out and look around an electric system and figure it out easily and the underground stuff you can't figure out. The water system is not so easy to

figure out because it's all underground and it's not apparent. I mean, you know where the pumping stations are. You know where the pumping stations are. You know where the filtration plants are. But the ugly little damage you can do by discretely going out at night and shutting valves down making it very hard for the operators to figure anything out. You know, you can dewater the system. You can damage the system. In the electric system you can blow transformers. You can do a lot of things. So in order to exempt the disclosure of data you need to have a policy. And as the purpose of this policy it talks about security sensitive things, non security sensitive things. And we're going to segregate things a little bit better. But the long and the short of this policy says you don't get data from us unless you know what you're doing with it and you have a reason for it and we won't give you system wide data. If you're designing a sewer on x y z street we will give you a portion of the electronic data for x y z street. And that's it. We will not routinely distribute the maps or the data to anyone. So that's really the purpose of this. I don't want to have this system generating data and then have somebody come it under FOI and claim that they can have the information. This is something that's fairly new in our business obviously because of 9/11 and all of those related things and in the old days we used to put these things on the websites. You'd show everybody what you've got and where it is, but today you just don't do that. So it's a fairly simple policy. It just spells out what you do and what you don't do and who gets it. There's an appeal to the commission if staff refuses to give something to somebody and that's due process that we're always required to put in here. And it simply divides things into security sensitive and non sensitive data. We need to adopt it at commission level. It can't be a staff developed policy. So what we're really asking is you accept this policy as written. It will change, you know, as little quirks will happen over time. It will come back to the commission for change just like everything else changes. But this is a basic thing that we need to put in place now because we're starting to generate information and significant volumes of information."

Commissioner Burgess: "So we need a motion to approve. Approve the Infrastructure Data Release Policy as written."

Commissioner Ayme: "So moved."

Commissioner Mann: "Second."

Commissioner Burgess: "Any questions?"

Commissioner Ayme: "One question."

Commissioner Burgess: "Okay."

Commissioner Ayme: "What cause of actions do you follow that an employee releases?"

Mr. Hiscock: "Depending whether it's accidental or deliberate there's a different course of action."

Commissioner Ayme: "It's not spelled out here."

Mr. Hiscock: "No it probably is not spelled out that way. I don't think it makes a distinction. Internal Controls 3.4 - Infrastructure Data whether or not security sensitive or not shall contain, no I'm sorry. Wrong one. 3.3 All employees shall protect all infrastructure data from accidental disclosure. 3.2 - No employee shall provide any infrastructure data to any non employee without the proper application form documentation and SNEW Director level management approval."

Security sensitive data will only be distributed to SNEW employees for a specific work related function. The penalties are not here. The penalties are actually in the Employee Manual.”

Commissioner Ayme: “In the Employee Manual. Okay.”

Mr. Hiscock: “And the methods are the same. We would not have the ability under this policy to discipline an employee any differently than we would for any other violation. The sanctions however, would probably be severe. Certainly if somebody distributed it for a bad reason we would do something that is popular these days. You report them to Homeland Security and let the feds deal with it.”

Commissioner Burgess: “Are we ready to vote? Yes. And that’s all correct the way we motion.”

Mr. Hiscock: “Um ha.”

Commission Burgess: “Alright. All in favor?”

Simultaneous: “Aye.”

Commissioner Burgess: “Opposed.”

No opposed

Commissioner Burgess: “Okay. Do we take a recess or do we...”

Commissioner Ayme: “I’d like to move for a recess.”

Commissioner Mann: “My question is could we possibly table the next item until next month’s meeting or do you think it’s a significance that we deal with it this evening?”

Mr. Hiscock: “Okay, I will, give me about a minute and a half and then you can table it. How’s that?”

Commissioner Mann: “Um ha.”

Mr. Hiscock: “Okay, I going to hand this out to you. I just want you to let you know where we are and what we’ve done.”

Commissioner Ayme: “I remove the motion for the recess.”

Commissioner Harris: “Thank you.”

Mr. Hiscock: “This is a copy of the building that we are in. This is the office. I just want to let you know that I’ve hired Nick Pacella, local architect to make modifications to the inside of this building. The meter department is getting moved. And that’s where our entire computer system is being placed in a modern fire proof security controlled area. We’ve got about three of four tasks that are going to be done, mostly centering around that. Half of the cost of that is going to be paid for by the AMI grant from the feds. I just want to let you know that it’s a small project and I simply hired Nick Pacella to do it. He’s a local South Norwalk architect we’ve known for quite a while,

okay. In addition to that I hired him to make one modification to separate the control room from the generation room at the old plant because we don't want to heat the entire building and it doesn't function very well when it's cold especially because we put in some really fancy new electronic modern relays. We're upgrading that facility and its been part of the capital program. So I hired Nick to do those two things. At the same time I asked for a proposal to do a feasibility study of how much space and how we can maximize the foot print of this site, the power plant, the sub-station, the line garage, the parking area and the street that we receive from the city when the plant was built. I'm sorry, when the garage was built and everybody can take one of these. And that's all I'm going to say. I can defer the detail about this until the next meeting."

Commissioner Ayme: "I'm totally lost."

Commissioner Mann: "I'm not."

Commissioner Ayme: "Okay, we can table this here."

Mr. Hiscock: "I'm simply saying I hired Nick Pacella to do two minor architectural tasks for us, one at the plant and one in this building. He's already engaged..."

Commissioner Ayme: "The outside corners, the plants."

Mr. Hiscock: "Right, okay. The third study that I want to do has to do with this site and maximizing its use for the purpose of attempting to consolidate all of our employees and operations other than filtration plant. Okay, we'll talk about that in the next meeting. It's not something that I need tonight at all."

Commissioner Ayme: "This is in conjunction with the unification of all the employees or..."

Mr. Hiscock: "Correct. So because it involves other properties, other issues, it's going to take a while so I think it will be better that we table this until the next meeting."

Commissioner Ayme: "Okay."

Commissioner Burgess: "Can I have a motion to..."

Commissioner Mann: "I make a motion that we table the item until the next meeting."

Commissioner Ayme: "Second."

Commissioner Burgess: "All in favor."

Simultaneous: "Aye."

Commissioner Burgess: "Can I have a motion to adjourn?"

Commissioners Harris and Mann: "Motion to adjourn."

Commissioner Burgess: "Second."

Adjournment

The meeting adjourned at 8:20 p.m.

Attest:

Gwendolyn Gonzalez  
Asst. District Clerk

Transcribed by: Connie Farrugia  
Reviewed by: Gwendolyn Gonzalez