

**Testimony of Drew Rankin, CEO of the Connecticut Municipal Electric Energy  
Cooperative (CMEEEC)  
before the Energy and Technology Committee  
Proposed HB-5234, SB-4, SB-78, SB-79, and SB-413  
February 21, 2017**

Chairpersons Reed, Formica, and Winfield, Ranking Member Hoydick, Vice Chairs, and Members of the Committee. My name is Drew Rankin and I am CEO of the Connecticut Municipal Electric Energy Cooperative (CMEEEC). I am here to testify in opposition to House Bill 5234, and to Senate Bills 78, 79, and 413, and in support of Senate Bill 4, all of which are exclusively concerning the Connecticut Municipal Electric Energy Cooperative. Thank you for the opportunity to testify before you today.

CMEEEC is a not-for-profit, joint-action power supply agency governed under Chapter 101a of the Connecticut General Statutes. CMEEEC forecasts and secures the full power requirements of six municipally-owned electric utilities in Connecticut and is empowered to plan, finance, acquire, construct, and operate electric generation and transmission facilities, as well as contract for power, in a manner that meets the diversified needs of its Member and Participant municipal electric utilities reliably and at the lowest possible cost. Additionally, CMEEEC provides services to the Mohegan Tribal Utility Authority, the Metropolitan District Commission, and several towns in Massachusetts. Approximately fifty percent (50%) of CMEEEC revenues are from Member operations. CMEEEC is governed by a Board of Directors consisting of representatives from each of the six municipal electric utilities as directed by their respective utility commissions.

Out of respect for the Energy and Technology Committee, I am filing testimony regarding all five bills within this one document for Committee efficiency and effectiveness, and will address the proposed bills in the order listed above, following two general notes.

### **CMEEC Precipitating Actions**

Prior to addressing the proposed bills, I want to speak explicitly to the underlying catalyst for the origin of these five bills coming before the Committee. Specifically, CMEEC conducted strategic retreats over the last few years during a time of significant transformation of CMEEC operations, structures, and staffing, with an intent to create a more unified staff and higher functioning Board. As CEO, I created the retreats to try to foster a more collegial atmosphere and provide a forum to employees and Board Members as an opportunity to build greater trust and personal insight on a less formal basis. I now appreciate these specific forums were not in the best interests of CMEEC and I am professionally responsible and accountable for the adverse consequences of my bad judgment in these business decisions. I am sorry for my actions that are causing such harm, and will work to ensure we restore the full faith and confidence of all stakeholders. To that end, my Board and their respective Municipal Electric Utility Commissions have established revised controls and limitations to ensure such actions and adverse results shall never occur again. I do appreciate the legislators' efforts to increase transparency, and look forward to working with members and this Committee on appropriate controls to help restore faith in CMEEC.

### **CMEEC Value to Communities**

CMEEC creates value for the six municipal owners through four distinct and unique capabilities:

1. High performance portfolio management / energy procurement ("Power Cost Only")
2. Net revenues ("CMEEC Margin") from Non-Member sales
3. Net revenues ("Project Net Benefit") from asset management operations
4. Net income from CMEEC operations ("Equity Created")

CMEEC's legacy practice of energy procurement and innovative load management processes and tools enables a sustained lower cost solution set for all CMEEC customers, including strategic participation in generation and transmission projects. Significantly aiding the Member value are additional value enhancers of margin and equity creation, both substantial contributors to achieving the lowest net wholesale cost. The sum of these four capabilities derives the net lowest wholesale cost. The CMEEC joint action agency model is far superior to all other models available to CMEEC Members in delivering bottom line benefits of lowest wholesale cost and strategic investments in their communities. Other models cannot provide the margin and equity offsets to power cost, and cannot offer the maximally efficient and effective joint project ownership structure. In 2016 alone, the sum value of projects, margin, and equity amounted to over \$11.8 million, and future years are increasing. If not but for CMEEC, the six Member Electric Utilities' wholesale cost would have been \$127 million more from 2013 through 2016. Additionally, the Member Electric Utilities would be overwhelmingly disadvantaged in creating the extensive fifty-megawatt (50 MW) microgrid network in their communities, the generation investments in the Groton Submarine Base, and over \$22 million in 2016 savings of wholesale power for four large employers in southeastern Connecticut.

The CMEEC "Master Metric" is Total Member Return ("TMR") which measures CMEEC Net Wholesale Cost to the Regional Benchmark, as measured by percent deviation from the Regional Benchmark. 2013 – 2016 performance is 16%, 30%, 35%, 30% respectively. Cumulatively, this performance represents over \$127MM value creation to the benefit of Members & their customers, independently validated annually by CMEEC Auditors.

Without CMEEC and the joint action agency structure, the six Member Electric Utilities and their customers and communities will realize significant cost increases and significant loss of strategic infrastructure, as will Non-Member CMEEC customers.

### **House Bill 5234 – Opposed and Recommended for Discontinuance**

House Bill 5234 as proposed intends to usurp commercially reasonable terms and conditions as

mutually agreed between contractual parties, regardless of their CMEEC affiliation, and to create unnecessary and unfounded requirements that will serve no constructive purpose. In fact, HB 5234 will actually create destructive conditions to all parties, by inserting an unmanageable and undefined standard by the State of Connecticut that somehow must anticipate all future conditions, including where prudent limitations shall exist, which are better left for contracting entities to define the appropriate level of detail. CMEEC utilizes commercially reasonable standards of detail in all operations, regardless of affiliation, based on proven and widely accepted legacy practices, which are continuously refined to improve operational efficiencies and effectiveness. CMEEC Member and Non-Member customers already possess contractual relationships and definitions contained therein for mutually acceptable standards of detail, including ability to review CMEEC records pertaining to the customer, which are the same standards upon which the parties contractually agreed to originally.

*Adopting HB 5234 will add unnecessary and unwarranted administrative burdens, regulations, and costs, which will serve only to create destructive results, and which cannot be legislatively defined for all possible future conditions, and therefore, CMEEC opposes and recommends HB 5234 be removed from further consideration.*

#### **Senate Bill 4 – Supported and Recommended for Minor Modification**

Senate Bill 4 as proposed intends to create a revised set of minimum standards for maximizing transparency of CMEEC governance matters with Member municipalities. CMEEC supports the improved standards as prudent enhancements of existing practices, and offers one minor request for consideration. Specifically, CMEEC requests the Committee to limit CMEEC responsibilities of posting requirements to only those venues and bodies within CMEEC's direct control so they may be reliably achieved. The wording as drafted appears to require CMEEC to post governance documents on the Member municipalities' websites and or other venues not in CMEEC control. CMEEC is happy to provide the prescribed documents to the defined parties, but believes it best

for the Member municipalities to manage their respective posting requirements.

*Adopting SB 4 as intended will enhance existing transparency standards, especially if modified as requested, and therefore, CMEEC supports and recommends the refinement and adoption of SB 4.*

**Senate Bill 78 – Opposed and Recommended for Discontinuance**

Senate Bill 78 as proposed intends to act as a replacement of CMEEC joint action agency as applied in conjunction with Senate Bill 79. This “repeal and replace” of CMEEC is unwarranted and destructive to the immediate and long-term interests of the six Member Electric Utilities’ communities, other CMEEC customers, and many large employers served directly and indirectly by CMEEC. SB 78 on a standalone basis is not of material matter to CMEEC, as it is SB 79 that creates the destructive result, however, even on a standalone basis, SB 78 is not necessary or required as the capability exist currently should CMEEC Member Electric Utilities desire to utilize other models or service providers. CMEEC maintains no franchise limitation of Member Electric Utilities options, as each is served by CMEEC under a long-term power supply contract, with as little as a two-year advance notice of termination. Thus, should a Member Electric Utility, or their Utility Commission, seek an alternate service provider, they maintain that option and may elect such at any time, less the advance notice. However, as noted in prior testimony, to do so would increase their cost to their respective communities unnecessarily, as the CMEEC joint action agency model is far superior to the other options.

*Adopting SB 78 is a solution without a problem or need, is drafted within an unwarranted “repeal and replace” strategy, and CMEEC opposes and recommends SB 78 be removed from further consideration.*

**Senate Bill 79 – Opposed and Recommended for Discontinuance**

Senate Bill 79 as proposed intends to eliminate CMEEC's enabling statute and therefore, CMEEC, without knowledge of or regard to the CMEEC strategic and tactical value to the Member Electric Utilities', their customers and communities, to Non-Member CMEEC customers, and ultimately, the State of Connecticut. Elimination of CMEEC poses two specific and material consequences:

1. CMEEC's dissolution would immediately and materially adversely impact six Member Electric Utilities, their customers and communities, Non-Member CMEEC customers, and numerous large employers in the region. Notwithstanding contract defaults triggered by such an event and the effects of those defaults harming the same entities, no equitable solution or replacement is available. CMEEC's Members and customers maintain a far superior business model than the proposed SB 78 "joint purchasing agency", consisting, as a minimum, the following strategic advantages and capabilities:
  - a. Higher performing energy portfolio management and procurement strategies, tools, and personnel, with direct, real time performance accountability, including comprehensive and integrated load management strategies and capabilities, creating lowest available net wholesale power costs. In 2016, this value was over \$17 million lower cost
  - b. Project participation in a joint ownership model, affording all size and scale participation, which would not be available in a joint purchasing agency model, and certainly not without CMEEC. Strategic investments in the eighty-four megawatt (84 MW) peaking generation plant would not be feasible, the fifty megawatt (50 MW) community microgrids would not be feasible, the fifteen megawatt (15 MW) Community Solar Gardens and energy storage would not be feasible, the imminent eight megawatt (8 MW) SUBASE Fuel Cell Project would not be feasible, and numerous other examples currently in operation, acquisition, and development. Each of these represents not only a way to create net revenues to offset energy expenses, they offer strategic solutions to enhance and preserve

economic vitality during natural and human induced disasters at critical locations throughout Connecticut. In 2016, this value alone was over \$2.7 million, and will be over \$10 million in the imminent future

- c. CMEEC provides exceptional value to Non-Member entities, enabling lower operating cost and higher retained value, whereby net revenues are created and flow back to the Members. This net revenue (“CMEEC Margin”) is used to offset Member Electric Utilities’ power supply expenses by CMEEC performing economic enriching products and services for others in addition to the Members. A joint purchasing agency does not afford such a capability. In 2016, this value alone was over \$4.2 million and is projected to grow significantly
- d. CMEEC produces net income (“Equity Creation”) as a company, which flows back to the Members. When “excess equity” exist over and above the minimum equity-debt ratio, Members receive the excess equity for issuance. In 2016, over \$4.6 million in equity creation occurred, with projected excess equity issuance of over \$7 million projected in May 2017.

In total for 2016, CMEEC Members realized over \$29 million in savings / benefit, with nearly \$12 million of that value unique to CMEEC joint action agency model. A “joint purchasing agency” model would not be able to produce that value, as well as not be able to produce the power supply cost performance, thus, the Member Electric Utilities’ customers and communities would incur fundamental power supply cost increases.

- 2. To the extent the state acted to repeal CMEEC’s enabling statute, thereby eliminating CMEEC’s ability to exist by dissolution, two harsh realities are triggered:
  - a. CMEEC’s strategic investment (generation, transmission, etc.) indebtedness underlying security would be compromised as the long-term power supply contracts would no longer be in effect and the outstanding debt would no longer have the security on which the bondholders relied. In addition, and in recognition of the problem posed by a dissolution of CMEEC when there is outstanding debt

obligations, CMEEC's statute prohibits the dissolution of CMEEC unless all debt obligations are paid in full. The bond purchasers have relied on this provision as additional security for the debt. If the legislature were to repeal the statutory provisions that have been relied on by bondholders for security for the bonds, over \$98 million of outstanding indebtedness would not be paid. The bondholders would, it reasonably appears, look for redress from the State of Connecticut, which by the actions of the legislature, might be said to be violation of the Contracts Clause of the US Constitution. This clause prohibits a state from impairing the obligations of a contract.

- b. To the extent the bonds were paid in full by the parties for which the indebtedness was incurred, which includes two entities other than the CMEEC Member Electric Utilities, those entities would incur a \$98 million dollar collective debt without ability to operate and maintain the assets to create value, and or would be faced with net stranded investment post liquidating the assets. These large, adverse financial consequences to the six Member Electric Utilities, Wallingford Electric Division, and Mohegan Tribal Utility Authority would destroy the respective communities and entities

*Adopting SB 79 is an immediate and material adverse impact to Member Electric Utilities' customers and communities, large employers in the state, and Non-Member CMEEC customers inside and outside the state. Additionally, dissolving CMEEC creates overwhelming stranded investment, default, and legal consequences. CMEEC opposes and recommends SB 79 be removed from further consideration.*

**Senate Bill 413 – Opposed and Recommended for Discontinuance**



Senate Bill 413 as proposed intends to apply a redundant and unnecessary standard of disclosure of CMEEC's "Books and Financials" subject to the Freedom of Information Act. CMEEC's records, due to the CMEEC statutory origin and requirements, are already subject to the Freedom of Information Act, including prudent exemptions. CMEEC complies with all Freedom of Information Requests consistent with the Act, including permitted and prudent exemptions. CMEEC maintains a legacy practice of posting CMEEC financials on our website, which may be viewed by the general public at any time. CMEEC contracts with Members and Non-Member customers also include provisions for disclosure and ability to examine relevant records.

***Senate Bill 413 is an unnecessary and redundant regulatory burden that serves no constructive purpose, and therefore, CMEEC opposes and recommends SB 413 be removed from further consideration***