



SENATOR HEATHER SOMERS
EIGHTEENTH DISTRICT

LEGISLATIVE OFFICE BUILDING
300 CAPITOL AVENUE, SUITE 3400
HARTFORD, CONNECTICUT 06106-1591

CAPITOL: (860) 240-8800
TOLL FREE: (800) 842-1421
E-MAIL: Heather.Somers@cga.ct.gov
WEBSITE: www.SenatorSomers.com

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Testimony by Senator Heather Somers
Senate Bill 413: AN ACT MAKING MUNICIPAL UTILITY COMPANIES' BOOKS AND FINANCIALS
SUBJECT TO
DISCLOSURE UNDER THE FREEDOM OF INFORMATION ACT
Senate Bill 78: AN ACT CONCERNING MUNICIPAL ELECTRIC UTILITIES CREATING JOINT
PURCHASING AGENCIES
Senate Bill 79: AN ACT REPEALING SECTIONS REGARDING MUNICIPAL ELECTRIC ENERGY
COOPERATIVES.
Energy & Technology Committee
Tuesday, February 21, 2017

Chairman Formica, Chairman Reed, Chairman Winfield, and Representative Hoydick:

Thank you for the opportunity to come before you to testify today in support of three bills that I sponsored with the intent of appropriately addressing serious accountability and transparency issues that have come to light with regard to the Connecticut Municipal Electric Energy Cooperative or "CMEEC."

The bills in question are Senate Bill 413 -An Act Making Municipal Utility Companies Books and Financials Subject to Disclosure Under the Freedom of Information of Information Act; Senate Bill 78 - An Act Concerning Municipal Electric Utilities Creating Joint Purchasing Agencies; and Senate Bill 79 – An Act Repealing Sections Regarding Municipal Electric Energy Cooperatives.

It is my hope that this committee will act to draft the necessary statutory changes to ensure CMEEC is adhering to its mission to provide low cost, reliable power to the municipal utilities it serves and to ensure that its management and board uphold the highest standard of conduct as it carries out its essential government functions.

As many of you aware, in the 1970's the Legislature created an opportunity for the municipal electric utilities in Connecticut to come together and form a joint purchasing agency to meet the individual utilities' wholesale power supply needs. That agency is what we have come to know as "CMEEC."

CMEEC is premised on the concept that all of Connecticut's municipal utilities can pool together to get cheaper power supply than if they each individually went out into the wholesale markets alone. The idea is a good one that, if properly executed, can save ratepayers money, primarily by acting as money and risk manager for its members in the markets.

From a legal perspective, CMEEC is a municipal entity “owned” by several Connecticut municipal electric utilities, including: Groton Public Utilities, Norwich Public Utilities, Bozrah Light & Power, South Norwalk Electric & Water, Third Taxing District (East Norwalk) and Jewett City Department of Public Utilities. CMEEC has an estimated customer base of 70,000 in its member territories, many of which are distressed communities.

Over the last three to four months, a series of articles in The Day and the Norwich Bulletin have uncovered details about the use of funds, lack of transparency and unethical conduct by CMEEC management and board members that rises to the level of concern for this Committee.

“Derbygate” involved the expenditure of hundreds of thousands of dollars through CMEEC for its staff, board members, friends, family and others to attend what could be charitably called “junkets,” to the Kentucky Derby and to Greenbrier, a West Virginia resort famous as the facility that would house the United States government during nuclear attack.

I don’t wish to further pursue these events except to say that they are the subject of several ethical inquiries at the local level and at least one federal inquiry. My concern, which I have raised in a meeting with CMEEC officials, is this type of diversion of ratepayer money could occur or that these funds could so easily be redirected for purposes that have nothing to do with ratepayer protection. What does need to be answered is who in CMEEC felt it appropriate to spend these funds designed explicitly for reducing the cost of electricity to consumers?

It isn’t enough for CMEEC and its members to claim that since they do provide a low wholesale rate and do comply with much of their responsibilities, that it entitles them to use significant ratepayer dollars to entertain themselves or pay for other items out of the public view. CMEEC sponsored four all expense paid trips to the Kentucky Derby, which included in the last visit, a chartered jet, first class accommodations and box seats to view the race, according to published reports.

For some ratepayer who still comes down to pay his or her bill in person, the idea these trips were even suggested would be enough to have all the principle players removed from their duties. In fact, that happened when it was disclosed several years ago that a Florida utility also sponsored a Kentucky Derby trip. All key management officials from that utility were removed from their duties.

CMEEC funds are supposed to be returned to each member utility through several funds whose uses are outlined. However, neither CMEEC or the municipal utilities have provided my office or media outlets with that information, to discern whether other expenditures not related to CMEEC’s core mission are being improperly programmed.

Despite several requests under the Freedom of Information Act (FOI), I have been unsuccessful in getting the budgets and line-by-line expenditure reports for the various accounts under CMEEC or municipal utilities.

Early in the emerging scandal, CMEEC provided The Day with a heavily redacted document of several pages intended to summarize CMEEC's budget. CMEEC cited "proprietary" information at the time. When I recently made the same request to CMEEC officials, they indicated they would provide a similar document with redactions. Given the fact that CMEEC retains non-profit tax-exempt status, which allows them to find a more competitive wholesale price, this declaration raises other issues as to whether CMEEC is meeting its legal standing.

There should be no confusion about whether any CMEEC or municipal documents, save the usual FOI exemptions, are open to public inspection. I am including in my testimony a June 7, 2013 opinion by Attorney General Jepsen to the LeAnn R. Power, Public Records Administrator for the Connecticut State Library, which clearly concludes CMEEC and municipal utilities come "within the scope of records management program authorized by the state."

Either through the FOI or other legal process, the documents will be presented to the public for inspection. I don't believe we need an explicit new law to make CMEEC and its members to comport with what already exists. As you can imagine, it is frustrating not to receive answers to questions designed to get at the facts. And the facts need to be aired for credibility of both CMEEC and the municipal utilities.

What does seem to be without doubt that in 2013, CMEEC and its board approved a rate structure that would set aside a small, almost imperceptible charge on each ratepayer of \$1/Megawatt Hour. The funds are held at CMEEC and deposited into a Rate Stabilization Fund.

One would presume that the fund itself is as a legitimate risk management tool intended to be drawn upon at times when wholesale market rates spike. The municipal utilities could use the reserve to avoid rate shock to their retail customers.

However, according to The Day newspaper, the Rate Stabilization Fund was used to pay for Norwich's trips to the Kentucky Derby.

It also appears that the \$1/Megawatt charge is levied on CMEEC's other, non-member customers. These funds produce what CMEEC termed "margin." CMEEC officials and board members first identified these dollars as the source of the Kentucky Derby trip funding.

It is unclear how much rate stabilization funding and margin revenue is finding its way back to Connecticut's municipal electric utility ratepayers. CMEEC refuses to release its budget documents for public inspection claiming that its cost to provide services is privileged "business sensitive" information.

Nothing is stopping CMEEC from releasing their budget today, resolving all of our concerns and fears that their prior undisputed acts were more than "missteps." However, this nonprofit, public

agency refuses to do so. Something more fundamental is broken and restoring public trust will only happen if the legislature undertakes a structural revision of the CMEEC enabling statute.

- Structural changes must begin with a forensic audit of CMEEC.
- Funds held in accounts by the cooperative and collected via rates and charges must be statutorily defined.
- There must be a review and approval process for CMEEC's budget and rates that is conducted outside of its own board room.
- The CMEEC Board should include one ratepayer from each municipal utility member to ensure the consumer's interests are incorporated into the decisions of that body.

In closing, I'm seeking answers for my constituents and assurances that their \$300 million in ratepayer assets and cash are managed responsibly. Municipal utility ratepayers in the six CMEEC communities cannot be sure their rates are "just and reasonable" and only this body can call for the necessary reforms to restore their confidence.