

**SPECIAL MEETING  
BOARD OF MAYOR AND ALDERMEN**

**January 26, 1998**

**7:00 PM**

Mayor Wieczorek called the meeting to order.

Mayor Wieczorek called for the Pledge of Allegiance, this function being led by Alderman Thibault.

A moment of silent prayer was observed.

The Clerk called the roll. There were thirteen Aldermen present.

**Present:** Aldermen Wihby, Klock, Reiniger, Sysyn, Clancy, Pinard, Shea, Girard, Rivard, Pariseau, Cashin, Thibault, Hirschmann

**Absent:** Alderman O'Neil

Mayor Wieczorek stated I appreciate everybody being here. This certainly is going to be something that is on the front burner of the State of New Hampshire this year. It has been for quite some time and I guess we are going to probably have to give this a little bit of a push. But tonight's business is a presentation relative to electricity related issues by the City of Manchester, their staff, and their consultants, Peter Grills from O'Neill, Grills and O'Neill; Sheree Brown, SVBK Consulting Group; and Ann Garrity, The Garrity Group. The Mayor turned the meeting over to Randy Sherman, Deputy Finance Officer.

Randy Sherman stated before we get started, I just want to run through just a couple more names here. At this table here we have Leo Bernier who is our City Clerk; Tina Parsons who has been dubbed the Manchester Area Aggregation Program Administrator, an employee of the City of Manchester; and if we can walk through the consultants again, on the far table closest to the screen we have Sheree Brown followed by Peter Grills and Ann Garrity. I would like to recognize a couple of other people first. In the front row over here we have Jim Schuler from the City of Nashua who has worked very diligently with us. Next to him is Tom Arnold, the Assistant City Solicitor and I would also like to thank our staff, Michelle Tontodonato who is running the screen for us tonight and Ellen Delisle who just slipped out the back who is doing the names. If we can flip to the next screen we are going to get this program going. Just a quick run down of exactly what we are going to be talking about tonight. We are going to hit on the Pilot Program, we are going to do a little Electricity 101 and hit on the deregulation issue, we will talk about the restructuring and the significance of the participation that we have had with Manchester, Keene and Nashua. We will then get into Aggregation and what that means. We will talk about public education and how we are going to handle that going forward once the regulation hits. Then we are going to get into the actual nuts and bolts with the procurement process, the Inter-Municipal Agreement that all of these communities that are here tonight have

had a chance to go through at least once. Then we will wrap it up with a financial summary of what we have spent to date and the savings that we have realized. Then we would like to open it up to questions and answers at the end. We want to move this along, obviously, as quickly as we can so again if we can hold the questions to the end we certainly would appreciate that. At this point we are going to move into the Pilot Program with Tina Parsons.

Tina Parsons noted the Pilot Program is how the City of Manchester got involved in Aggregation in the first place and the Pilot Program was initiated by the State of New Hampshire. It is a program that was designed to last two years as a small test in the State to test deregulation and some of the issues that would be coming in the full blown market eventually. But the State picked a small test that was 3% of each utilities load in the entire state and each of that 3% would be of the same breakdown as the commission currently has the rate classes. So that residential, small commercial, large commercial and industrial would all be represented. This differs from some of the other states in New England that did not take this approach to a Pilot Program where not all of the residential market was actually participating. In Rhode Island they only did it by industrial customers first and then in Massachusetts what they did is rather than open it up across their state they picked certain communities to participate in a Pilot Program. But in the State of New Hampshire, they decided to test the entire market but just a small portion of that. Half of the willing participants came from people who got up, called an 800 number and put their name in for selection and the other half of the customer base in this Pilot Program came from community leaders who put their community's names in the lottery, if you will, for selection. The breakout for the City of Manchester, this is how the selection fell out and how, I am sorry, there were 709 accounts that were selected in Manchester in total and this is the breakout of the accounts that we had in our actual Aggregation Program when we went out to a bid process for supplier. A hundred and fifty-three, as you can see, is the major portion of this breakout and the residential market is the largest component of the rate classes as we go forward. There were 31 municipal accounts and there was one, that GV account is actually the only large account in the program and it belongs to the City of Manchester's Hillside Junior High School. These were the resulting rates, the public ones, the ones that we are aware of from other Aggregation Programs in the Pilot Program. The Town of Peterborough, that is the rate they got from Enron. Granite State Tax Payers did a small Aggregation Program for participation in the Pilot and this is Manchester's rate, and these are the public rates. Now we don't know if, in fact, we were close or even lower than any non-published rate so there could have been an industrial customer in the Pilot Program that locked into a supply contract for a price maybe even higher than ours but we wouldn't be aware of those. The results of the Pilot Program, we, in December, sent out a letter to each one of the residential accounts that are part of our Pilot Program to demonstrate to them, after the course of 12-14 months of being in this program, how much money they had saved. One of the things that we found out that when they talk about the residential market they always talk about an average KW usage by home, by residence and statistically the participants in our program, some were higher, some were lower, but the average actually comes out to around 642. These are the kinds of breakdowns between the PSNH, what we did was we got the KWH usage from our

supplier and using the different rate components of the different tiered rates that have changed on PSNH's, every six months they go in for an F pack adjustment so we had to take all of that into account and this is how we came up with an average savings for an average household. I just want to point out that of that 25% savings, in the Pilot Program in order to get people to participate, one of the conditions that the NH Public Utilities Commission put on this program was that the utilities would have to give up a 10% participation credit. That 10% is actually calculated on their total bill, not just on the generation piece, but on the bill and the total so it does have an impact to that 25%. This is representative of a commercial customer. These numbers were actually taken from our Airport account and as you can see we were pleasantly surprised that even with things like demand and capacity, which when you get out into the real world of electric deregulation is something you have to consider beyond just the kilowatt hour usage, but the savings still come close to that of a residential customer. The other thing I want to point out for this program only, we had a flat rate. In other words, it didn't matter if a participant was a resident or whether it was a commercial account, they still got the same price for generation. We don't expect that to be the case when we go out with a full power supply contract. We think that there will still be a differentiation between a residential customer and a commercial customer. Sheree is going to give a little bit of a history lesson on electricity and the deregulation of that.

Sheree Brown stated I have been elected to give you a little bit of background about just the electric industry in general because already Tina has thrown some terms at you that maybe you are not familiar with if you are not in the industry. She has been talking kilowatt hours and KW and capacity and energy and all these things and a lot of times it helps to get familiar with exactly what the terminology is and what has happened with this industry that has made things change so much that now everybody is all in an uproar about this deregulation and exactly what does it mean. Traditionally, with any type of production or any type of commodity that you are buying, it is produced in one location and that is generally what you would call your production facility, and then there is some kind of delivery system. So that if you are buying toothpaste, it has been manufactured at the plant and it has been put on trucks and shipped out to distribution centers and so forth. Well, the electric industry is very similar in that you still have the same functions. What you start with is the electric utility. This is where you would input your resources, you would input your fuel and you would have a unit that is then capable of generating the electricity. It is generated at very high voltages and then it is sent out on a transmission system on these very high voltages and it goes to a step-down substation. At this step-down substation it is then, the voltage is then reduced to a more usable level which can be used at businesses and homes and then it is transferred over distribution lines, which is what you will see coming down your street generally. If you have seen the big substations, that is where you are looking at transmission systems, the ones that say "Keep Out". You have one over near the Amoskeag Hydro facility. You see that right across the street from there. That is a transmission substation. The electric utility industry, though, unlike a lot of the other industries is very complex. The problem is you have very long lead times for your capital required to build your production facilities. It is not something that can be built very shortly and you have

to consider a lot of things. You have to consider what type of fuel resources you are going to have, what the prices are going to be over the life of these facilities and the facilities may last anywhere from 10 to 50 years. Hydrofacilities may last as many as 70 years so there is a lot of planning that goes into providing that. One of the biggest problems, though, with electricity is that there is an instantaneous demand that must be met with an instantaneous supply, unlike the toothpaste example I gave you a minute ago. If you run out at the store, well you run out. Here, when you flip on the switch you want your power there and I know in New Hampshire you don't always get that when you have ice storms and so forth. A lot of times, that is someone who may not understand the industry might think that that is because somebody wasn't producing the power, but that is not the case. It is because the transmission lines or the distribution lines have been knocked out. What has happened over the past few decades, really the industry started as a monopoly and the reason for it being a monopoly is because of the intense capital that you had to put into the generating facilities and then also the inefficiencies of overbuilding transmission systems and distribution systems. It doesn't make sense to have five different companies putting a distribution line down your streets. You don't want that, it is unsightly and it is also just duplication of and inefficient use of your resources. So, typically the utilities were considered monopolies. That is why we started out having regulation. Regulation was intended to simulate competition so that there wouldn't be pricing abuses because you were captive to that particular utility. You had to purchase from them. You did not have a choice. Over time, however, there has been a lot of things that have changed. The biggest thing that changed that was the impetus for moving to deregulation was that the transmission, the transmission systems around the country became so vast and so interconnected that we now have a National Transmission Grid. What has happened is that the utilities then were able to go, not just to their own generating facilities, but they could go across the state lines and get transmission of someone else's production or generation of electricity and bring it into their system over transmission lines. So they were able to buy, what would be like economy power is what they would call it. As this has happened, they have been able to take advantage of competition among different utilities and try to have more efficient utilization of the resources. As this has happened, many have started to look around and go wait a minute if they can do it, why can't we. If the transmission system is capable of delivering the power from utility to utility, then it should be capable of delivering it from customer to customer. So that is one impetus for it. Another is that the regulation that has gone on over time, even though it was intended to simulate competition, has resulted in very, very different prices from one jurisdiction to the next and you in New England are very familiar, I am sure with knowing that your bills are among the highest in the country as compared to other areas. So you have to sit back and go well what caused that. Was it a difference in regulation, a difference in management of the utilities or what. It has caused great economic hardship in high electricity cost areas of the country, especially with industry that is very energy-intensive having to leave in order to stay in competition around the country with those who were in lower cost areas. So this has driven the entire industry to be looking towards competition. The first thing that happened, of course, is that is started at the Federal level and now it has moved down to the State level. What is happening now is that with competitive power supply you now have three or four utilities lets

say in an area that might be putting power into the transmission system. The idea behind it now is that you, as a consumer, should be able to choose which of those suppliers you would like to have provide your electricity. Now you could actually draw a line right here and this is the production function and then you have your transmission and distribution. The transmission and distribution, as I mentioned before, it is very inefficient to overbuild those systems so those will remain a monopoly for the consumer. They will remain regulated and you will have regulated prices for that. But the production portion is what is being deregulated and that will be open to competition. Now this creates a lot of opportunities that different municipalities, different consumers, will have as a result of deregulation. The first is that you will have access to alternative power suppliers. The main thrust behind this is that you are hoping that you will get competition going to be able to sell you that power. Many cities around the country now are looking at municipalization. This is typically in the areas where the states are moving much slower towards deregulation so that the cities are saying wait, I am going to take advantage of competition that is being allowed through the wholesale transmission access that is being given through the Federal Energy Regulatory Commission because they don't have the ability to get competition at the retail level. But for many cities like Manchester and those of you who are here tonight, aggregation is a great opportunity here. It is an opportunity to take advantage of group purchasing power and to get the best deal that you can in the market. Then as a result you would also be able to use this for economic development. Many of the utilities, and I am sure those local utilities here, have offered incentive rates and different economic development rates but they have been very selective on where they go. As a municipality, you can actually build an economic development incentive into your package so that you can put together an energy services package that hopefully will attract more business and industry into your location. So that could become part of your overall goals and objectives that you could enhance through your restructuring activities. You could also look at self-generation and there is many other things that you can look at trying to put together a more comprehensive energy services package. Now we just discussed several of the options that you had for power shopping in the new environment. As you move towards deregulation, you have the top part which shows that any customer would be able to buy from any utility that it chooses. They call this typically a one-to-one contract or a bilateral contract model. It simply means, just like with the telephone bills, where you got inundated with letters everyday saying you know choose AT&T, Sprint, MCI, you know whoever and then you had to make your choice. This would be the same thing. You are basically entering into your own contract. You may not have the knowledge or want to do that so you may want to go a different route. Then you have the idea of a municipal utility or an aggregator who would then put together either as a municipal utility you may be putting together all of the citizens and businesses within your municipal city limit, but there it would not be a choice of the consumer it would be something where they then had to, they had to buy the power from you. But it would also put more risk onto the municipality because then you would have the risk of the contracts that you would have to purchase your power and so forth which you would not have as an aggregator. What we are finding is that many brokers have come together now. Brokers or power marketers as I am sure you have heard they would actually put together different sources of supply and then bid on contracts with municipal utilities or

aggregators and by the same token as a municipal utility or aggregator you could purchase from a power marketer or broker or from individual utilities. So that is something we will be discussing a little bit more tonight. Now I think Pete is going to talk to you a little bit about restructuring and some of the activities that we have been doing for the past two years here.

Peter Grill stated I am with the law firm of O'Neill, Grills & O'Neill and we do a lot of energy work across the country, but have been real pleased to be involved in New England because that is where it is happening right now and it has been real, real exciting. But I thought I would just address some of the, a little bit about what's happening across the country and what's happening here in the status of restructuring in New Hampshire. They are going to restructure. You are going to do it one of two ways. Either Congress is going to do it for you or the states are going to do it themselves. What I see happening now is the latter approach is going to be taken. I see lots of restructuring activities happening at the state level. It is happening faster in some areas than in other areas. In California, it has happened. In New England it is happening all over. It is just like dominoes, one state right after another. Where I am from in the mid-West, it is not happening. In fact there is a lot of apprehension out in the mid-West because our power costs are about 1/3 of yours. We burn a lot of coal and we have cheap power and what they are afraid of is if we deregulate they are going to export that cheap power out to where they can get more in New England and that is going to drive our prices up in the mid-West. So, it is not all happening at the same time, but it is certainly happening here in New England. There are about 10 states that have enacted restructuring laws which have mandated a restructuring of the environment to provide for competitive power supply options. There are about four states who have comprehensive, regulatory orders that have come out of their Public Utilities Commissions. There are about 20 states that have pending bills right now before the State Legislature dealing with deregulation. There are about 12 states where either the commission or a legislative committee is actively investigating or exploring deregulation. So it is not a matter of if it is going to happen, it is just a matter of when it is going to happen. Just a quick and dirty with respect to some of the states that are moving the quickest. New Hampshire is way out there in the forefront. They enacted their law in 1996. We are hoping to meet a deadline of July 1 of 1998 to have competitive power supply for full customer choice and that is going to be close. I will talk and tell you why it could be a tough one to meet because we got some litigation that we are involved in right now that might require that that be extended, but we are still hopeful. Rhode Island is already delivering power on a competitive basis to selective commercial, state and municipal accounts and they plan to have full choice by July 1 of this year. California had planned to have it by January 1, but they have run into some technical problems in setting up their independent system operator who operates that grid so they postponed it until March 1 of this year. Massachusetts is scheduled for competition in March 1 of this year. Maine has active proceedings involving all of the utilities that provide electric service in Maine and they are shooting for March 1 of the year 2000. What is going on at the Federal level? Last year, on the House side Representative Schaefer from Colorado was very active. He is the Chairman of the Energy Committee of the Commerce Committee. Blyly, who is the Chairman of the Commerce Committee, is also very actively involved with restructuring and they have introduced bills in

the House side, the Electric Consumer Power to Choose Act of 1997 and that is pending on the Senate side. Senator Dale Bumpers from Arkansas has introduced the Electric Consumer Protection Act of 1997 and then there is a whole host of smaller legislative initiatives that are dealing with the Federal Power Act, the Public Utility Holding Company Act and the Public Utility Regulatory Policies Act, but they are all related to deregulation. What Congress is finding out is that these issues are a little bit more complex than they anticipated. Not only in terms of the substantive issues, but they are finding out that the constituencies that are going to be affected by deregulation is terribly complex in itself. It is not partisan, it is more regional. You have the mid-Western states that have low cost power and they are worried about deregulation. You got your Federal Power Authorities, your TVA's, you got municipal utilities. You've got some very different constituencies that are going to be affected by this transition and I think Congress is finding that, I think they are finding it difficult to deal with at this point. So right now it is kind of on hold. My understanding is that there probably will not be much done this year. I do see a role for Congress. There are jurisdictional issues because there is no fine line right now between what role the Federal government will play in deregulation and what role the States will play and I see that these sticky jurisdictional issues may have to be addressed by Congress. So I do see that there will be a Federal role. Where we are at in New Hampshire is that you enacted your law in 1996 and the Legislature directed the Public Utilities Commission to go to it and put them in charge of restructuring the industry. They have held extensive hearings which the cities have been involved in. Nashua, Keene and Manchester have been an active participant in these proceedings and that is where all the parties will present evidence and they will address the issues and they will address the legal issues and written briefs. They have concluded those hearings and in February of this year they came out with their final plan which is going to oversee this historic transition into a competitive environment. Three days later after that was issued, Public Service Co of NH initiated a federal court action here, U.S. District Court in New Hampshire. The District court judges had recused themselves because of, I don't know why they recused themselves but they did recuse themselves and now it is before the Chief District Judge in Rhode Island. But the Commission did grant rehearings and they have reheard many of the issues that have been raised by PSNH and we went back to hearing and presented more evidence and made more arguments and we are hopeful that the Commission will resolve a lot of those issues that had been brought up in this Federal court litigation in a rehearing order that they are soon to issue. The Commission has indicated that they are going to send some of these real sticky legal issues up to your Supreme Court and have then answer those issues before they issue any final order. So there will be a time lag there. They haven't officially issued an order requesting transfer of the issues, but they have indicated and taken comments from the parties regarding the issues that they want to transfer to the Supreme Court. With respect to the district court action, the U.S. District Court Action, a temporary restraining order has been issued by the Rhode Island Chief District Judge. That is still in effect. They also issued an abstention order and what that is, is the Commission went in and argued and said to the Federal court judge that look this is a state matter. We still have pending proceedings. You let the state handle it first and then you can get involved. It is not appropriate for you to get involved at this time and the district court judge in Rhode Island disagreed with that argument

and said yes these issues are ripe, I am taking jurisdiction over that. There were many motions or petitions to intervene on behalf of a number of parties. The judge denied the City's motion to intervene in that U.S. District Court action as he did deny the petition of all other consumers, but he did grant the motion to intervene for all of the other electric utilities in this state. We had, the parties agreed to mediation. We had three months of mediation. The Honorable William Coleman, who used to be Secretary of Transportation, was appointed the mediator and as I said these are terribly complex issues. The Governor was right at the table participating in these mediations, but unfortunately the mediation failed and we were not able to reach a global settlement. Right now, the U.S. District Court proceedings are stayed. They are not active pending appeal of certain orders to the First Circuit Court of Appeals. The City has appealed, along with a number of other consumer groups, the order denying them intervention status. There has also been an appeal with respect to the decision to take jurisdiction, the abstention issue. Those matters have been briefed and they have been argued before a three judge panel back here in December. We are looking for an opinion out of the First Circuit Court of Appeals shortly. Now one thing that I really want to slow down and not talk too fast, an issue that I think is very important to me and often is misunderstood by local units of government and government generally. I have found something very striking here in New Hampshire. I just have to, it is striking in terms of the foresight that you folks have had and the appreciation of the fact that you can impact the public policy in this state. Often government looks and says God that is an awful expensive proposition I am not going to spend that money. But with respect to this historic transition that is taking place in this state, you have spent a lot of money. An awful lot of money. But the benefits you are getting from those expenditures are going to benefit the residents of your community for many, many years to come and the dollar figures are simply staggering. So we wanted to go through a couple little examples. I will start with the Manchester Aggregation Program and that was a Pilot Program and you spent some money on developing that program but your average annual residential customer is saving \$216 a year on that. Now on your high end, your higher consumer resident is saving \$795 annually. Now the municipality, the City of Manchester itself, is saving on average of all the municipal accounts about \$2,776 but the high use municipal account is saving about \$21,000 a year. Now, PSNH filed for a permanent rate increase and they came in and they said that their cost to capital because they are such a risky company was between 17% and 19% and that really they were entitled to a very significant increase, but because we are going to be cooperative here and we are not going to ask for an increase during the penancy of this rate hearing, let us keep the rate at the level we have now. The City came in, along with other parties and said no, that is not the case. It should be lower. There should be a reduction pending this proceeding and, in fact, the Public Utilities Commission order did reduce it, the existing rate, by 6.87% and that just saved the City, with respect to its municipal accounts, \$400,000 for the year during which this rate case will be pending. So I mean the dollars that you save by spending a few dollars to become involved in this policy making are very significant. I want to talk about the dollars, the potential savings in these restructuring hearings. Again, the figures I will show you are staggering. You here, and I don't want to get into...stranded cost is the issue and I don't want to get into the particulars of it because it is very complex but suffice to say is that the utilities are saying look

we made all this investment in this plant, you made us, we had to serve you electricity, now you are changing the rules and if we go into a competitive environment I won't be able to collect that investment back. That is called stranded cost. Well here in this state you have a very unique situation where PSNH has a lot of regulatory assets. They are not a hard plant, they are not a power plant, they are an intangible asset. They are an accounting asset. They were created when Northeast Utilities bought Public Service NH out of bankruptcy and they relate to Seabrook and some other issues that relate to that bankruptcy and they are very large assets and they are saying we have to recover all of the money that we have invested in these intangible assets. You also got small power producers, a lot of them in this state. You got your wood fire folks in the timber industry and you, the State as well as the Federal government, has required PSNH to buy power from them and they are buying that power at a much higher rate than they could go out and buy it elsewhere and they want to recover that investment. And then you have your generation assets. Of course, PSNH is saying okay if you cause us to go sell our generation, our power plants, and we sell them and we don't recover what we invested in that is stranded cost. The dollars are very, very significant. PSNH originally came in and let me just deal here with this top column here. Originally back in 1996, they came in and said we are entitled to recover \$461 million in one year, 1998, \$499 million in 1999, and \$464 million in the year 2000. This is an interim stranded cost charge. Now throughout the proceedings and a lot of people said that is not the case, you are way overstating stranded costs. The cities were very involved in this issue. Within a year after the proceedings, they were able to find their way down to reducing that amount of stranded costs they were asking to \$282 million. In other words, over the year they reduced their request for stranded costs in one year by \$179 million. What the City had asked for while they are asking and as it has gone to the Commission they are asking for \$282 million. The City has suggested that they are entitled to only \$191 million. That is about \$100 million difference. I do want to say this. The City did not set out to harm PSNH. The City took an extraordinarily, in my belief, reasonable position. They know PSNH is a good corporate citizen here in Manchester. This is one of our largest taxpayers. This is one of our largest employers and took a very, very responsible approach to presenting their case. But they are still \$100 million in the year 1998 apart. But these savings are translated into, this savings here just by getting them to change their position transfers into an average savings to the home of about \$178/year in 1998, \$183 in 1999, and \$158 in the year 2000. To the City, it is \$1.1 million that they are going to save in stranded costs just by convincing the change in this from this. And another \$1.1 million and another \$1 million in the year 2000. Now over three years that is over \$3 million that they have saved and I fully believe that it is because of the commitment they made to participate in this proceeding and the effective case that they were able to put on. So, I guess in the closing part of my first section is that you are different out here in New Hampshire. You have spent some money. I think you have avoided being short-sighted and I think the result has been tremendously beneficial to the residents of your different communities, both residential, commercial as well as your industrial residents. Now I think we are going to move back to Tina.

Ms. Parsons stated Aggregation, a whole new term for a whole new idea and concept in purchasing electricity and I have been doing some media interviews both with paper and radio and the first question I am always asked is well what is Aggregation. What can we tell people about Aggregation? And quite simply it is the bringing together of small individual retail electric customers to form an aggregate or large group. In other words, there is strength in numbers and it is our belief that by combining the municipal accounts, which we know that there will be a market for suppliers, people will come to us in an effort to sell us power and taking all the residents in the community and the small businesses. Especially the residential market that may be overlooked or just isn't going to have the buying power that the City is going to have and being able to give them a benefit to a program that we are going to have to do through our procurement code anyway. And as we get out in deregulation as Peter has said, there are other communities also looking at Aggregation. When we started in the Pilot Program with our little Program we were like first in the nation. Randy and I took a lot of calls from across the country about what we were doing, could they get a copy of our supply contract, could they get a copy of our plan. As Peter has mentioned, California is really out front in this. They already started deregulation as of January and the city of Palm Springs is doing Aggregation. They didn't call us, but it wouldn't surprise me if they called some power marketer that I sent something to and they sold them Aggregation. So any community that can do this is going to empower their residents in this new market. The benefits of Aggregation. The potential to achieve economic benefits through negotiations. We believe that there is no question that there is strength in numbers and the larger the power bulk power supply that we go out to market with we believe the better price we will get. We also think that there will be considerations in those supply contracts in terms of things that will be invisible to the user. Most people just want to be able to turn on the power and have it there. If you put on a light switch you want that to work. If you put on the oven you want the oven to work. But there is a lot of things that as we go into deregulations that are not necessarily concerns for the average person. They are still going to get electricity, but when you get into the commercial market and small business market, that market is a little bit different and they have reliability concerns. And the City is going to have a reliability concern because whatever we contract for, one of the things we can't let happen is the lights going out at the Airport or the fact that our sewer and water systems don't work so those are going to be reliability concerns for us and then we can pass on some of those contract negotiation provisions to the other people in the City. The Aggregation Program itself is an opportunity to educate people. It is going to be a complicated issue. We believe that it is going to, in some ways, parallel what happened with the deregulation of your telephone. But the difference is that when they did the telephone market if you as a resident didn't pick somebody, you stayed with AT&T. In this market that is not going to be the case. The Commission has designed the program so that absolutely everybody ultimately will have to make a choice. There may be a ramp up period, but everyone is going to have to make a choice and everybody is going to be responsible for that choice. So as a resident it is not as much of a concern. I believe that whatever will happen there will always be default powers so that you will be able to turn on the oven. But if you are a business customer in the state you have to be concerned that whoever you agree to do business with is going to be there

six months later to be able to still be doing business with that person. So education and getting out information to people is part of what we are going to do and we also, as I said, want to insure safe and reliable service. Some of the risk factors are mitigated by a power supply contract. We have the resources, one of the things the City has already looked at as you can see on here, it is a complicated issue and most of that expertise is not on local boards and we have hired consultants to help us with this issue. Obviously there is a cost efficiency to sharing that efficient, professional contracting and we just believe that Aggregation, as we look at combining communities, is the best way and the most efficient way of spreading those resources.

Obviously we believe it will expand our purchasing power by combining communities. We also think that obviously the administration, instead of having three communities with three programs and an administration and consultants for three programs, that the issue itself could be best managed by having one administration of those programs and then taking all of those costs and dividing them amongst the total kilowatt hours that will be involved in the program.

Demand benefits. This is a biggy. When you get into the residential market, there is a very, very pronounced demand line. Every supplier and others that we have talked with knows what the residential user does. Their pattern is pretty much laid out and it is predictable. When people get up in the morning, that is when they use the first surge of power. They turn on their lights, the toaster oven goes on, the radio goes on and that is the residential use. Everybody gets ready for work and school. They leave, that line comes down and then again peaks again when they come home. When they come home, again the lights go on, the oven comes on, the hot water heaters come on and that is a pretty much defined residential user base. What we look to do with an Aggregation is to take that missing piece in the middle and mitigate that peak and valley of demand with that of commercial usage and municipal usage because that is a usage that happens during the daytime and that peaks and valleys in the middle and then we, you know, as you go out and power supply, the flatter that line and you mitigate some of those peaks and demands, the better the price of power that you are going to get. So Aggregation allows you to do that.

Administrative Issues. One of the things that Randy and I discovered right away when we did our little Pilot Program was that there were lots of questions and there was nobody to answer those questions on behalf of the City, we were it. So we got educated really fast and the best way of getting information out was through the public process. We did public hearings, we ran some advertising in the paper and on radio to give people an idea that the City was a choice that they could make and then we did everything we did to go to different boards, municipal boards, the NH Municipal Association and just tried to make contact. A number of the issues that have happened in the Pilot Program that are going to happen going forward are the confusion over billing. Right now everyone receives one bill from Public Service that takes care of their generation and the delivery of their power. In the Pilot Program in the City of Manchester, those that are in the program get two bills. They get one for the energy component and one for the delivery component and in the new market it is possible that we will end up having PSNH carry that energy component for a different supplier as you pay NYNEX now to carry your long distance, when you get one bill from NYNEX that covers your long distance carrier. You could envision seeing your electric bill look similar to that. Unbundled bills. As we have looked before, there is issues in your rates that were never known to people before like

stranded cost, the acquisition premium and things. We got calls that said people looked at their unbundled bill and said but we don't want to pay for acquisition premium and we had to explain to them you have always paid for the acquisition premium, you are just seeing it in a different light now and now you know in effect why everybody is battling on a Federal level over this money. It is big bucks. And then publicity and I am going to be turning the forum over to Ann Garrity, but I should just preface what she is about to say to you and let you know that the NH Public Utilities Commission is going to be doing a public education, statewide effort to get ready for deregulation because one of the things they found in the Pilot Program was that there hadn't been enough public education for the issue.

Ann Garrity stated I want you guys to level with me. I am wondering how many of you have been confused by one or more of the things that have been said by the people up on the stage tonight. Raise your hand. More of you are confused. If you are confused, you are not alone. My name is Ann Garrity and what I do for a living is I follow smart people around and translate into language that normal human beings can understand what they are trying to say and as you can imagine, I have been very busy lately. What my job is tonight is to talk to you about the Public Awareness Program that is associated with the Manchester Area Aggregation Program. As you can imagine, electric deregulation is an extremely difficult issue to digest and public education, I think, is the essential component to making sure that the Manchester Area Aggregation Program is a success. So tonight what I am going to do is I am going to give you a little idea of what is going on in the environment, particularly in relation to New Hampshire. We are going to talk about some of our program objectives that are associated with public education and then I am going to give you a preview of some of the strategies, some of the tactics and a potential timeline that we have in relation to the MAAP public education program. The New Hampshire Public Utilities Commission recently completed a comprehensive analysis of a NH consumer opinion poll, what NH consumers are feeling about the electric competition to date. What they found out was three things: that people are interested in electric deregulation, that they are afraid of changes, and that they are extremely misinformed or uninformed on electric deregulation which provides us with a lot of opportunity and a lot of challenges. The NH Public Utilities Commission, as a result of this analysis, has put together a rather comprehensive public education and public relations plan and it is going to be essential to the smooth transition to a competitive marketplace. What we have identified for a MAAP public education plan first of all is our key audiences which are residents, residential consumers and small businesses. Our two objectives are to educate and inform these audiences first on cost-saving benefits and then to provide them with the information that they need to become involved in the Aggregation Plan. I want to talk to you a little bit about the strategies that we have identified. Our plan is still fluid and will probably remain so until a few more things are hammered down but what we are going to need to do is we are going to need to create a catchy slogan, something that people can readily identify our efforts with. We are going to have to produce collateral materials, things that people can touch, taste, feel to give them an idea of the benefits of the program. We are thinking about doing advertising although we are not yet committed on doing a large campaign. We are also going to be working with the media. Tina

has been doing a great job. The last four days we have been traveling around NH talking to key reporters on specific issues associated with electric deregulation and aggregation. There is a lot of good questions out there and a lot of information that still needs to be conveyed to these folks. The other thing that we are talking about is forming a Speakers Bureau which would go out to community and business organizations so that representatives of MAAP could talk live and in person to these folks and answer any questions that they might have. As I mentioned, the plan is still fluid. The plan is going to become more carved in stone after we identify the number of participating communities and also the start date. I will run through some of the tactics. As I discussed, we need to come up with a catchy slogan. An example might be "Get on the MAAP". That would be something that would be worked in with a 1-800 number, a website that consumers or potential participants could go to for additional information. Another tactic that we need to look into and get things going on is collateral materials, particularly a benefit brochure which would describe the consumer benefits of participating in the MAAP Program. Enclosing inserts in bills is something else that is available to us, as well as mailing to community and business organizations. Another tactic that we discussed is advertising. That is not my favorite tactic. It can sometimes be a costly investment. Sometimes it is very difficult to reach your target market, but in the event that we would go ahead and use advertising, we have targeted newspapers and radio drive time as probably the avenues we would pursue in relations to advertising. In regards to communication and media tactics, this is probably my most favorite tactic because it is a very cost effective way and a very credible way of getting your message across to basically everyone in our target area. As I discussed, Tina and I have been toting ourselves all around New Hampshire spreading the word and we plan to continue to do so through editorial board meetings, the development of press kits, news releases, radio actualities which are sound bytes that are fed to specific radio stations and it is extremely effective in targeting our message and getting that out, opinion editorials which are something that appear on the opinion page in the Sunday newspaper which might discuss the benefits of the program. Also, a media list compilation so that we are hitting media in the specific areas who have chosen to participate in our program, media spokesperson training and speaking appearances again. In relation to the timeline, that is still up in the air, but we do know that our program, the MAAP public education efforts, will be launched in conjunction with the PUC public education plan. The goal of the PUC plan is basically to help people understand their ability to choose. The goal of our plan would be to teach people of the benefits of participating in our program. Quite frankly, I don't care if people know what step-down, what a step-down substation is or what transformer is. What is important to me is that they understand the benefits of participating in our program and the cost savings that are available to them by doing so. In conclusion, I would just like to say that as I said before, public education is going to be very essential in getting residents and small businesses to participate in this program and it is going to be very important to further insuring greater cost savings for all MAAP participants. I think it is a great program and I am looking forward to working with you. Thanks.

Ms. Brown stated I want to talk a little bit about the procurement process that we plan to go through for the Aggregation Program. One of the biggest benefits of being in an Aggregation

Program is having the ability to go through the type of procurement process that you as an individual or as a small business cannot do yourself. One of the things we are doing first is to issue a Request for Expressions of Interest and Qualifications and what this will do is allow us to prequalify suppliers. We will be able to make sure that they meet minimum financial standards and that they have a history of self and reliable service, technical expertise, that they are not involved in any legal issues that we really don't want to get involved in, and that they provide a range of services that we are interested in. It will also help us to identify who are the potential suppliers so that we know basically what we might want to include in our Request for Proposals when we get to that point. Then we will issue a Request for Proposals and this will be based on the goals and objectives that are developed by the Manchester Program that will maybe take into account not only lowest cost but safety, reliability, economic development. There is an opportunity for maybe looking at whether you want green power, so there are some other things that can be put into the overall goals and objectives that you can build into your process when you are looking for, not just electricity, but maybe other energy services like conservation and demand side management. This will also be a point during the proposal process where the potential suppliers will get an idea of who is committed to the program, what type of load can they expect, and of course the greater the load the lower your rate. That is something that we were very fortunate with. I believe the best kind of on the street type market price that was given during the Pilot Program was about 2.29¢. That was the best on the street. The residential consumers who joined the Manchester Pilot Program were given 2.16¢ and then 2.15¢ just because they were thrown in with the overall group and while that may be the biggest and best goal for a residential consumer and even a small business consumer, as municipalities you will also have the opportunity to look at maybe some other benefits that you can achieve by belonging to such a program. And then when we get into the proposals, we will look at evaluating them based on selection criteria that will be pre-established and also presented to the suppliers during the Request for Proposals. The evaluation will be not only quantitative, looking at who is going to provide the lowest cost, but also qualitative based on all of the selection criteria. We will negotiate then with the top three suppliers based on the price and meeting all of the other objectives. Once we have the top three, we will look either at, we will have a procurement process that will either consist of simultaneous negotiations or we will get it down to the best bidder and negotiate a contract with just the best bidder. We haven't ironed that out yet but we will make sure during that process that in the contract development we have significant protections for performance so that we have things that you wouldn't necessarily get if all you were doing is being in the market and you get an offer across the table that says here is the rate, sign here and that is what you get. Then after that the program would also be responsible for assisting in implementation. There is documentation that will have to be provided to your current service provider to say that on such and such a date we are going to be transferred over to a new supplier. You will have to look at bill preparation, making sure that if you are going to have one bill or two bills who is going to do the billing and how will it be presented so that the consumer can understand it more readily. And then we would also be providing, through this program, a liaison for customer service because there needs to be somebody to work between the consumer and the supplier in many cases to answer certain

questions. I know I talked to you a little bit about selection criteria. These are the type of goals and objectives that would be established and then built into the selection criteria and into the proposal process and these are just some examples that I have given you here. The process that we will go through will be to try to maximize these objectives and sometimes you will have several that are conflicting. For example, if you had environmental concerns and as a result you wanted what they call "green power" which is saying I want hydroelectric or I want something that is very environmentally superior and I don't mind paying a premium for that because I am very interested in environmental. If that was your objective, that may be conflicting with lowest possible cost. So, once the objectives are established then it will be a matter of looking at the proposals that maximize all of the objectives. Many of these are financial and many are also technical in nature and while we will use the expression of interest and qualifications to make sure that all of the proposals will meet minimum qualifications, this will be the process that we will look at to make sure that we get those who actually maximize the value to us and meet the qualifications to the highest standard possible. Now I know I mentioned the green power thing. I am not saying that we are going to do that to the exclusion of lowest cost and I don't want to leave that impression, but there are things that we can do as a group if there are specific needs or interests. It could be that as we get further down the road there may even be a component where you could say that you want to maybe have that component and others may not want to have that. It may be that we end up with some alternatives that you could choose from so that is something that we may also build into the proposal process. Now Pete is going to tell you a little bit about how the Inner Municipal Agreement is set-up.

Mr. Grills stated before I get into the Inner Municipal Agreement, I want to make a couple of comments again. I don't think you can understate the benefits of what you are doing here. You know there are obvious benefits of, you know, if I am buying power as a residential customer they are not going to be nearly as interested in me if an entire City with their municipal accounts and an aggregated load of residential customers, they are going to, I mean there can't be any comparison. The other thing that I think and I am kind of restating it again is the importance of the resources that you as cities are bringing to bear on this procurement. I have practiced utility law for over 20 years and I look at all that stuff that comes in regarding my long-distance services and I haven't got a clue. I could no more figure it out than the man in the moon nor do I have enough time in the day. Now if my city came around and said we are going to aggregate long-distance services for our citizens. We are going to hire some people to go out and we are going to have some expertise, I would jump on it in a minute and that is what you are doing on the electric side. The other thing that you are doing that is exciting here to me, before I get into the Inter-Municipal Agreement, is and I do think it is a first, is you are over the years here now since we are moving toward deregulation you are seeing a lot of mergers, not only between electric companies but you are seeing electric companies merge with gas and what you are doing is you are seeing people look at it from a more comprehensive approach. It is just not electricity. It is energy it is conservation, it is putting the regulators on the walls to turn the lights off at night at the schools and turn down the heat and then turn them back on at 8 a.m. It is gas. Gas right now every one of your little schools probably has a boiler that burns gas. You

burn a lot of gas out there at the Airport. What we are looking at is kind of stepping in right now and putting out to bid a comprehensive energy services package where you say we want more than just electricity, we want you to come in and look at our schools and if we can replace windows or we can replace lights and we can save energy on the consumption side. We want you to look and aggregate our electrical rate. We are exploring the possibility of putting out natural gas as part of this comprehensive energy services package. There are some real legal issues that we need to look at before that, but it is a first in terms of I think a municipal government looking at taking such a comprehensive approach. Now in terms of organizing and coordinating this, what we have tried to do is we have tried to capitalize, as Tina said, on the experience we have had in the Pilot Program. Manchester's Finance Department had this Pilot Program. We learned a lot from the Pilot Program. We already have the administrative capacity in place right now and it just makes more sense if we can centralize that administrative function so all other cities that are participating don't have to set-up a separate and independent administrative function for themselves. So what we are doing is trying to have Manchester serve as an administrative services provider and bring in as many cities as we can get interested who are willing to take this comprehensive approach to energy services. The one thing that we have tried to do is, again it is in New Hampshire, your bureaucracies are lean and mean and you know the less government the better government so what we have tried to do instead of creating another layer of bureaucracy what we have tried to do is simply coordinate what we have got in place. Now a lot of times this could be done by creating an Energy Authority that purchases the power for all the participating authorities, but you are going to have another governmental entity. What we have tried to do is to avoid that and what we are doing is setting up here, you have various levels that we are going to have to coordinate. You have your aggregation participants, that is me the user who is going to be a participant in the Municipal Aggregation Program. Each city that participates will have their own Municipal Aggregation Program and then you will have your Aggregation Agreement or your Inter-Municipal Agreement which provide the terms and conditions under which these administrative services will be provided to each one of the Municipal Aggregation Programs. I won't bore you with the details of the Inter-Municipal Agreement. It is way too late, but I do want to just address it conceptually. As I said, the purpose is simply to coordinate and provide administrative services to all the participating cities. We don't know who the parties are now but we know we have got interested parties who have come tonight and I suspect there will be other interested parties in this program. Each city will do their own Municipal Aggregation Program. We have prepared a standard Aggregation Program plan that we have kind of modeled after the plan that we did for the Pilot Program which can be utilized by cities and the cities will have an opportunity, once they sign onto this Inter-Municipal Agreement, they will have 30 days to take that back and adopt a Municipal Aggregation Program and if they can't do that or they don't want to do that, then they won't be party to this Inter-Municipal Agreement. But once they have adopted their own plan and the plan is consistent with the terms and conditions of the Inter-Municipal Agreement, they will become a party to the Inter-Municipal Agreement. Manchester is going to provide, their duties and responsibilities are, again to go out and do what Sherry is talking about. To develop that Request for Proposals, to develop those supply contracts, to negotiate that deal, to bring it back

to the cities and what they are going to do, and the way it is set-up now is that once we have a supply contract then the cities will have 30 days to take a look at it and they can raise an objection. If they raise an objection then they will have 30 days from the date that they make that objection to discuss with Manchester and try to resolve those objections to everyone's satisfaction. If those can't be resolved, or they don't wish to resolve that objection and the 30 days expires then they no longer become part of this Inter-Municipal Agreement. The joint operating budget is just the administrative budget that they put together annually for administering this program and as part of that budget there will be, you will amortize these development costs that you are now spending to develop RFP's and to get this program rolling, you will amortize those costs over the term of this Aggregation Program. Then what they will do is take those administrative expenses in that budget and they will anticipate the consumption, the KWH consumption for all the communities that are participating and what they will do is divide the KWH consumption into the administrative budget and get a per KWH aggregation fee. So everybody that participates in that aggregation program will be paying a fee to cover all of the administrative expenses and that will just be on their bill just like the power supply component and the distribution component. There will be an aggregation fee to pay for the administrative expenses so the program will pay for itself. There will be a Coordination Committee and every community will have a member on that Coordination Committee and an alternate and that Coordination Committee has responsibilities. They will be looking at that RFP and they will have input to that RFP. They will be looking at the supply contract and they will have input on that supply contract. They will be looking at the quarterly reports that Tina provides them. They will be looking at the annual financial audit on how successful the program is annually and they will be coordinating all the public education efforts in each community. So, it will be a very functional committee to bring these communities together. In terms of getting out of the program and terminating it, we have designed it, if you want to terminate it you can. In other words, if you don't want Manchester to be the administrative provider, you can terminate the agreement with three month's notice but we are asking that the effective date of the termination would be the following July 1 date and that is to keep people in the program to keep some sort of continuity. Now depending upon how that supply contract comes out, you might terminate this Inter-Municipal Agreement but you still may be on the hook for the supply agreement. You may not want them to provide administrative services, but depending on how we negotiate the supply agreement you may or not be still on the hook as a part to a supply agreement. So that is kind of what we have tried to do is keep it simple and functional without creating a whole host of complex issues.

Mr. Sherman stated I guarantee we are almost done here. Just three quick slides on the financial issues that we have to date. As Peter has said, we have spent a considerable amount of money to get where we are. You see the bottom line there, \$871,000 to date over three fiscal years. We have broken those dollars down into five categories here. Initially we had our Pilot Program which was to get that contract in place, then we had the whole restructuring and the rehearings, and the mediation process going on. That is under that \$560,000 which obviously is the bulk on that as Sherry said has gone over two complete years now. Peter said we were in

Federal court. We had the rate case as Peter pointed out before there was a temporary rate case hearing that went on. Again, we kind of played a background role there and just did some cross-examination of witnesses and kept that down and then what we have so far spent under the Aggregation Program is \$155,000. The funding allocation at this point, \$205,000 has come out of Manchester's general fund. The City's enterprise funds, our Water Works, our Sewer Department, our Airport and our Parks and Recreation Department, very high users of energy in the City, have kicked in \$240,000. We will be recouping that \$155,000 out of the Aggregation fee when we start adding that on to our supply agreement. The City of Keene has given us \$16,000 and Nashua has kicked in with \$252,000. Now as Peter said that sounds like an awful lot of money until you start looking at the type of dollars that we have actually been able to recoup out of this. Under the Pilot Program, it was a two year Pilot Program. If you actually carry the savings that we have calculated to date out to the end of the Pilot Program, the 210 residential accounts are going to save \$82,000 over that two year period. The 31 municipal accounts will reap and \$83,000 savings on those utility bills. Under the restructuring, as Peter walked you before down through the difference in the stranded cost and where PSNH has come from November of 1996 to November of 1997. The three year average on a residential account is \$166/year. The three year average on just the Manchester municipal accounts is over a million dollar a year savings on those accounts and again this is over a three year, so over that three year period we will save \$3 million. Again, on the temporary rate case we have saved over \$400,000. Again, that is only Manchester's accounts. It doesn't count Manchester's accounts or Keene's accounts or Derry's accounts or Bedford's accounts and it doesn't count anything that the residents or small businesses saved. So, again we feel that we have spent obviously a considerable amount of money but we think that the benefits we have gotten from it certainly have justified what we have spent to date. Now what I have been asked by the City Clerk, we are going to move into the question and answer session here but the City Clerk would like to change his tape so he can make sure that he gets all of this for the minutes.

Steve Densberger, Nashua asked how will the billing be done for this. Are we going to end up with two or three different bills or will Public Service put all of these charges together on one invoice or how is that going to work?

Ms. Brown answered we will ask each supplier what their preference is. Now many suppliers will prefer to just let PSNH go ahead and do the billing. Some may prefer, and we found in the Pilot Program, that the supplier really wanted to issue their own bill and I think the real reason was that they simply wanted people to become familiar with their name and their logo and all that so it was more of a marketing ploy but at the most you would get two bills. But when you do get a bill, no matter who your supplier is or what way you go about obtaining your power supply in the future, you are going to have a much more detailed bill in the future.

George Pressley, Nashua stated I guess I have, I am still on the fence on the whole notion of aggregation and I will tell you why. To me, the perfect model, although frustrating when you get the calls at 7 o'clock at night, but the perfect model would be to have the suppliers

contacting the individual consumers like the AT&T's and the Sprint's and the MCI's because although it is aggravating to each one of us as consumers, it is truly empowering us to make our own choice and the plan that I have chosen will be different than Alderman Fredette or what anyone else chooses and so I kind of view this as, this may be a necessary structure at this point because we don't, the suppliers haven't kind of generated the customer bases like the AT&T's of the world to be able to provide the fixed cost and the efficiencies. So I guess my question is and then you mentioned to us the, you know, if we do this MAAP we can educate people, we can offset the residential base with the commercial base and it all strikes me as functions of the energy generators somewhere down the line. I guess my question is, is this something that you perceive to be more of a soft landing for the consumer or is this something you perceive to be a longer term program. That is my first question and my second question is why not just set-up the structure so that we empower the individual customer so they can choose between different power companies so that we don't have to set-up this whole other decision-making body.

Mr. Sherman replied I guess the first thing I would say is I just want to make it clear that if a community has an Aggregation Program, it is a voluntary program for you residents. This isn't something you are going to be forcing your residents into so if they still choose to get that phone call at 7 o'clock at night, they can still do that. They want to make that choice on their own they can certainly still do that. As far as empowering your residents, that is really what the PUC is trying to do. The PUC has, actually the legislature actually put into legislation that every consumer has to be responsible for their choice, it is right in the legislation. The PUC is not going to, you know, doesn't want to be responsible and Legislature isn't going to be responsible. The PUC is going through an education process to try to empower people into making their choice. The reason we are doing this is what we found in the Pilot Program is that the suppliers didn't want the residents. They didn't want to go out and have to hunt and peck to these people. If you look at your bill, the smallest portion of your bill is the generation portion and that is what we can go out to bid here is the generation portion and when you are talking about the average consumer and you are talking \$5 or \$6 a month and maybe you know you can start knocking off 10%, well your margins start to get real small and people can't even bother sending me at 32 cent piece of mail they are going to start losing that money right away so they are not going to go after the residents. What we feel is that they are going to start going after the bigger customer. They are going to cherry pick and they are going to make that up with the residents. They are going to force you into some higher rates and we feel that by aggregating the loads together we will be able to get the residents the same benefit of that bulk purchase to the large buyer and that is where we really think the benefits are to your residents and your small businesses. I don't know if that answers your question or not, but...

Alderman Clancy asked is each individual homeowner going to be able to pick which company they want.

Mr. Sherman answered they will either get to choose whichever supplier that they opt for or they can select into the Aggregation Program and then that supplier will be picked for them.

Alderman Clancy asked will they have to lock in for so many years.

Mr. Sherman answered I think that will depend on the supplier. Maybe Sheree do you have a better idea on how something like that might happen?

Ms. Brown replied there is a couple of ways that we could end up doing it. One is to require a minimum term for different individual participants to join the program. For example to give a more solid load characteristic for the program to potential suppliers we could have people sign up for a minimum of a year or a minimum of two years or we could make it where the participation is not only voluntary to begin with but that they could terminate at any time. What we have asked is that the municipalities commit the municipal accounts because at this point we are looking at the flexibility for allowing the residents and the businesses to terminate at will, but depending on what we find when we go through the proposal process and we look at the expression of interest and qualifications we may find that there are a lot of benefits to having a longer term commitment and that may even become something that you have an option. You get one rate if you sign up for two years, you get another rate if you are able to get off in six months. We are still in the stages of kind of assessing which way to go on that.

Alderman Clancy asked that would be something like a CD more or less.

Ms. Brown replied could be.

Alderman Clancy asked the people we give aid to in the City of Manchester are we going to be able to pick for those people or not.

Mr. Sherman replied are you talking about on the Welfare rolls. If we can force them in? If it is long-term we may be able to get their account switched over but if you are talking about obviously a one-month where somebody comes and says I can't afford to pay my bill this month, I mean obviously at that point it has passed and you are going to have to just pay whoever their supplier was, but again that certainly is something that can be looked at.

Ms. Parsons stated in addition to Alderman Clancy's question, Randy and I actually had a conversation with a gentleman from the NH Housing Authority and they are looking at the issue for their residents, for low income.

Gordon Graham, Derry stated as I understand it, the Pilot Program was tried out in a regulated environment if you will and I guess what I am wondering is what kind of a predictor a Pilot Program in a regulated environment is of the success that you are going to have in a non-regulated environment in terms of the rates that you plan on seeing or that you think you are going to see.

Mr. Sherman responded I certainly think that what we saw in the Pilot Program we won't see in a full deregulated market. There certainly was no doubt that suppliers were coming in trying to buy customers. They wanted to get their foot in the door and Manchester was no exception to that, but what we did see again is how the suppliers are going to react to certain situations. Again, we had 31 municipal accounts selected for the Pilot Program. We received calls on one. We had some, you know as you saw with the Airport account that was a hefty account. The suppliers didn't even want that one. The only one they wanted was the junior high school because it was a large user of power and I think that is more indicative of what we are going to see than what we saw on the rates.

Ms. Brown stated I think another point to add to that too is that while what I said was that the average rate that was just passed around the state was 2.29 cents and we got 2.16 and then it was lowered to 2.15 because we had it as more participants came into the program the rate was lowered. Even if it is not at that level of savings, what we believe will happen is that those in the program will be at a lower rate than what the market would generally offer. Whether the whole market is at a higher amount or not, we anticipate that the Aggregation participants will be at a lesser rate.

Mr. Graham asked that is a projection based on hopes.

Ms. Brown answered as far as retail competition goes you don't have a lot of database to go with because you really just don't have the experience out there yet, but the experience overall in the utility industry is that the utility suppliers want the bigger groups, they want the bigger bang for their buck, they want the exposure that they will get with a larger group. They are not interested in the smaller customer if they can pick off the larger customer. This would give

them a much bigger group of customers for a much more limited marketing investment if you would.

Mr. Graham asked isn't the key leveling the load and how do we know we are going to level the load if you don't have the residents, if you will, signed up.

Ms. Brown answered I have talked to several suppliers recently about just that issue. The suppliers are not too concerned with us having to level it as long as we can come in with a large enough group they will know what they have to do on the other hand to level it. So it may be that a supplier comes in and they take the Manchester group and then they also go out and they try to bid a contract with another group that would have diverse characteristics to what the Manchester group would have, so the suppliers are in a situation to do that.

Mr. Grills stated the other thing real quickly, the other mix in that chemistry is you had some predator pricing I think going on in that Pilot Program but you also have, if we do go to the market with a more comprehensive approach where you are not only giving them electric load but they can come in and do some performance-based contracting and conservation measures or demand side management measures and your schools, your municipal buildings and you throw that mix in there, and then if, and I don't know that we can at this point, if we can throw the natural gas mix that is a huge expense. If you can throw that in, you may be getting even more competitive prices on the electric side if they can get a piece of the action on all of these other energy services.

Craig Bulkley, Derry asked has anybody looked or analyzed what the municipalities liabilities are where it gets in the position of recommending to its citizens what kind or whose electric power to buy and if, in fact, an indication is that you are going to save x number of dollars over the course of year and you do not because the savings don't pan out, what is the liability of the municipality.

Mr. Grills answered we have been very careful, at least in the Pilot Program, and when we create the relationship between the Municipal Aggregation Plan and the individual participants, we have been very careful not to create any sort of agency relationship where we are binding them to things and we have also asked them on the nomination form when they nominate and opt into the program they sign a waiver with respect to any potential liability.

Mr. Bulkley stated but you just indicated a few minutes ago that you were going to bind them to a two year, perhaps, or maybe a three year contract to stay with that particular company.

Mr. Grills replied you won't be binding them. They will be binding themselves. I mean that is the only way they are going to get into the program is if they are agreeable to it. I do think the issue is well taken and certainly as we develop the program the RFP and the notices that go out

we are going to do everything we possibly can to limit any potential exposure of the municipalities with respect to liability.

Mr. Sherman stated under the Pilot Program we actually had the participants sign a nomination form because when Green Mountain Energy Partners came in they said well we will give you one wait if you sign up for the two year term of the Pilot Program and we will offer you a variable rate if you want the ability to jump in and out of the program. So we actually went back to all the participants and they actually signed a nomination form. I think it was, maybe we had 10 people sign for the variable rate. Green Mountain has never come back and changed the rate just probably just because the number was so small. But that is the type of form we are going to have to have participants sign again.

Mr. Grills stated as a practical matter, if an individual participant wants out, they are going to get out. You are not going to go back and I don't think you are going to exercise any sort of legal recourse against them if they decide that they are going to opt out, but I don't know what were the results, how many people did that to you in the Pilot Program.

Mr. Sherman replied none have left.

Jim MacEachern, Derry stated you had mentioned earlier about the municipalities signing up and that would kind of be the starting point. Are there any plans to at least have levels of participation from the various communities for residents relative to the Aggregation Program where that would be used to determine the rates or how do you go about you just gave an example of different rates for different levels of signing up, in other words if you want a variable here is the rate, one year here is the rate, two years...yet all those rates would seem to me to be predicated on a minimum amount of usage and that usage would be not only municipalities signing up for some guaranteed term but some level of participation from the citizenry in the various communities and if you fall below that certain level who bears the burden?

Mr. Sherman answered well the way the agreement is set-up now and the way I think it will probably be bid is if Nashua is not satisfied with that supply agreement and they are a big user, they are a big player in this and they have got some major objection and that objection can't be resolved, the Inter-Municipal Agreement terminates to them and any supplier that you negotiate with is going to understand that and so I think probably so there are not going to have assurances when they bid this as to the exact size and nature of the load so I suspect what is going to happen is what happened in the Pilot Program where they just ratchet those rates down. The more load you have commit to the program, the lower the rate is.

Mr. MacEachern stated so it is essentially a sliding scale then so the more people that each municipality signs up then it is a sliding scale, but that is good if a lot of people sign up but if a lot of people don't sign up then you could conceivably be stuck with a higher rate than what exists in the marketplace today. Is that true or would the worst case rate by joining the program still be better than the current retail rate.

Mr. Sherman responded well under the agreement if you don't like the rate that you get you can make an objection purely on price and not become a party to the agreement. You have 30 days to do that.

Earl Rinker, Derry stated my understanding is you are pooling all of your kilowatt needs and you are going to have a lot more than any one municipality or any one business or any one resident would have. It might be helpful if you explain a little bit about the mechanics of how this works. Tina and I have talked about this so I have some understanding of it, but you are going to pass on an administrative fee. How much of all of those costs that you put up there do you intend to pass on to the users? My understanding is there is no fee to the communities or anybody other than this fee that is going to go on your bill and that will be an ongoing fee besides whatever you are trying recapture as you go down the road. Would you explain that and how that works and what you are looking for and what you expect to save versus what it is going to cost in the fee?

Ms. Parsons answered well we expect the fee to be minimal and based on, if you look at a PSNH bill now there is a customer service charge there of \$9.80. Now that includes meter reading and some other element of billing and it would look similar to that on the bill that you would receive. In essence, the \$155,000 that Randy mentioned about Aggregation, those are the start-up costs of this program. Tonight's presentation will then be added to that fee that you see there. The EIQ that we went out on the street with today, that will again go into that bucket and then when we do an RFP that will go into that bucket. There is no up front fee. In other words no community has to put anything on or a town it would be a warrant article for a board from a city they would have to vote to appropriate money. Right now the City has done that budgeting process and those fees are being paid for with the expectation that once we have a program those fees will only be appropriated to those people who voluntarily belong to the program. Now if the community of Derry commits to the program some of those fees, there aggregated municipal load then becomes part of that divider base for the municipal usage. So obviously the more attractive the program is to have participants and businesses join us or residents and businesses join us it lowers the fee for everyone in the program. But it is by design and by statute it can't make a profit. So it is an enterprise fund where the expenses of the program are met by the revenues of the program. We will establish some fee initially that will be a per KWH charge that will show up on the bill as a multiplier and then what will happen is either as the revenues exceed the expenses as we budget for an ongoing program or in the alternative the budget actually exceeds the revenues collected, we would adjust that fee.

Mr. Rinker replied as you try to make-up this little bit behind and start in to the program and you spread, you are just going to charge that off how do you intend to do that? Over some period of years or months or...

Ms. Parsons answered well it is something we discussed today as a matter of fact in terms of how to develop the fee but like Peter mentioned part of the contract is having a community representative on the Coordinating Committee to help and obviously object to any portion of the fee structure that they are not happy with.

Mr. Sherman stated I think to add to that though you are right. Some of those costs will in essence be amortized over the term of the contract that we have. If we end up with a three year supply contract, the cost in developing that supply contract would be amortized probably over that period and again that is, as Tina said, something we were discussing today and trying to work on as we work our way through this program.

Mr. Rinker stated and from what you are guessing that is a rather minimal fee. In other words for a resident we are talking about \$1 a month or something.

Mr. Sherman replied we probably expect to be less than \$.50 a month on a residential.

Mr. Rinker asked and you would expect to save a percentage of 10, 15, 18 or 20 is what I heard before.

Mr. Sherman answered on the generation portion at least, yes.

Mr. Rinker asked who is going to be the administrative body of this program. Is it Manchester and then you had mentioned that, is there a representative from each of the other communities that would be joining that board?

Mr. Sherman answered Manchester will be staffing the program and doing the administration and will, in essence, be answering to what we have termed a Coordination Committee which will have a member from each of the communities that sign on to the agreement.

Paul Hopfgarten, Derry stated if I could just follow-up on what was just said then. The Coordination Committee would be equivalent? How would that make-up as one from each community that joins regardless of size, regardless of the load that they bring to this board and would they be making the administrative decisions? For example if there is a hiring, a firing among the members of this group that are actually employees of Manchester. How would something like that be handled and who would be responsible for that?

Mr. Sherman answered the employees of Manchester will be the employees of Manchester. Obviously we have to follow our own Personnel ordinances in that regard. No, really what the

Coordination Committee will do they will be reviewing the RFP and following that process, the supply contract process, they will be reviewing the budgets that will need to be submitted and adopted by the Board of Mayor and Aldermen in the City of Manchester, they will be dealing with public education to make sure that all communities are getting the same information and are getting the same public hearings because again if you are going to adopt an Aggregation Program in the town of Derry you have to have a public hearing. Again, this Committee would work to make sure that you get the information that you need. They will be reviewing the financial information, reviewing the calculation of the actual administration fee, again making sure that there aren't surpluses or deficits running there and they will be reviewing, I think Peter mentioned earlier, the annual audit.

John MacLean, Keene stated first I would like to say thank you very much to the panel. I think you have done a fine job here this evening talking about some of the benefit of Aggregation, but what I would like to ask is specifically how do we know that this particular program will be competitive when we recognize that there will be other programs possibly in the near future competing with this one?

Ms. Brown replied there is only one other program that I am aware of right now that you are actively, that is actively going on in the state right now and that is the Municipal Association of course. I think that what you have to look at there is comparing the two programs and exactly where they are headed. I have been trying to get information from them about their program and have not been successful in getting a lot of the answers that we tried to provide you tonight about the Manchester program so I can't really answer everything about it but I can tell you that the groups that you have sitting here tonight weigh heavily in population against the rest of the state and that alone could result in substantial savings to being in this program. Then you have to look at the fact that they are starting off with just municipal accounts. Manchester is starting off with municipal accounts plus all the residents and businesses that would like to opt into the program as well. So this program, I anticipate, will be a larger program. Other than that I really can't speak to what their costs are or technical expertise or anything at this point.

Suzan Franks, Nashua stated I have a question in terms of your timeline. You have indicated that until this issue with the stranded cost is settled that it sort of leaves a lot of questions out there about what are the programs going to be like and what costs will come down. I was wondering if you have an idea of really when this can truly start and if it is not really premature at this point because of the legal questions out there.

Mr. Grills answered I think you raise a good point. I think there are a lot of legal questions out there. Whether the State Supreme Court, we don't know, I mean the Commission has indicated they are going to transfer legal questions to the NH Supreme Court and they will be important legal questions and not simple legal questions. They will be legal questions of first impression. So there will be briefing and argument and so forth within the Supreme Court and they are going to have to have time to issue an opinion. That is why I am a little suspect of whether or

not we are going to be able to really meet the July 1 deadline. There is also uncertainties with what the Federal court is going to do. If, in fact, they do they come down with an opinion from the First Circuit that will reactivate the Federal court proceedings and it is unclear as to what extent the judge will continue to take jurisdiction and you are going to have to have discovery and preliminary injunction hearing and discovery and a trial on the issues in that Federal court proceedings. But whether or not this is premature, I don't think it is premature. There is a lot of planning that goes into this and right now you are farther along ahead than I have seen any municipality in the country. Again, I am not totally familiar with what is going on in California but you guys are way out ahead. It is a very well thought out program. I think the more you can educate the marketplace that you know what you are doing, you got your load together, you are there and you are a player and the early you can do that in the marketplace, the better off you are going to be in negotiating agreements with these suppliers. I think you are going to be very capable of demonstrating to them that you in fact do know what you are doing.

Ms. Parsons stated Randy and I sit on the public education working group of the Commission and in that working group it is primarily made up of communication managers from the different utilities and we go to represent the municipal and residential and small commercial business interest on that committee. There is a woman from Granite State Electric who sits on that committee and she is involved in the Massachusetts issue with NEES, New England Electric System, who is their parent company. She has told us that the public education working group in Massachusetts, NH is miles and miles ahead of what they are doing in Massachusetts. If you look at Peter's timeline, they are looking to deregulate with having settled their stranded cost issue with their utilities by March 1 and yet they have no education plan at all. They don't have anything in motion at all and these people are going to be left with making a choice of something they don't even understand yet within two months and she has told us that the NH Commission has just, you know we got a plan and they are going to be looking to implement that plan so anything even that we do in example this evening helps with that effort in educating people before and it may seem premature because we still have this Federal court issue, but with supply contracts and negotiations and qualifying suppliers, it takes months to get all this stuff in place and we feel that if we are ready for July 1 and we don't have a contract which I don't suspect that we will because it is going to be hard for a supplier to guarantee that price to us too far in the future, but even at that we will have already started the public education effort and laying down the groundwork for readiness so even if it slides to December at least we will have some of these things in place to begin with.

Mr. Grills stated let me just add one more quick thing to that. All of this talk about this litigation I think I have created kind of an ominous feeling here that is overwhelming. You know we went back to rehearing after they initiated their Federal court action we went back to rehearing and PSNH came a long, long, long way. Two very important issues I think is one of the things that we ended up in Federal court on was the particular methodology the Commission used to calculate stranded cost was going to result in hundreds of millions of dollars of accounting write-off and PSNH and Northeast Utilities just couldn't take that kind of hit. I

think the Commission will remedy that issue on rehearing so you have eliminated really the heart of the Federal court action. The other big issue is PSNH fought very aggressively the whole notion of requiring them to sell their power plants, divest their interest on the supply side, they fought that very vigorously and on rehearing they came back and agreed to divest themselves of their interest in power plants and power purchases contract. There again you take another big chunk out of that Federal lawsuit. So I was very pleased with how far the parties came together at the time of rehearing so I don't think we are all that far apart on a lot of different issues so this litigation may go away and allow us to proceed a little bit earlier than originally anticipated.

Steve Densberger, Nashua stated I saw a cost sheet presented, I think it was \$870,000 of costs and there was I think \$560,000 which is Manchester's cost in terms of restructuring and I think the Pilot Program costs were in there. I am just wondering why or if, in fact, the proposal is that Nashua would pick up a piece of those costs when in fact Nashua has had its own expenses for those types of things.

Mr. Randy Sherman responded Nashua already has picked up a portion of those costs. We went to Nashua back in 1996 and brought in these same consultants and laid out the plan and where we were going and what process we were following and at that point the City voted to help fund us based on a population percentage sharing so Nashua has paid 40% of those costs already.

Ms. Franks stated again getting back to this Coordinating Committee that you had proposed. It sounds like an oversight committee, maybe an energy oversight committee and you said that the membership would be one representative from each city or town, I think that is what you indicated. Would they be voting members and if so how would that work. I guess have you explored at all the idea that maybe the membership should be somehow connected to the number of participants or the amount of usage or anything like that or did you simply feel that it was a one town one representative?

Mr. Sherman replied that is the way we have left it. One town, one representative. Although, you know the Committee is going to have a lot of input into the actual process as we mentioned, the RFP and the budgeting, what we tried to do though is structure this plan, you know we have to keep in mind that Manchester is going forward with an Aggregation Program and we need to be able to continue to go forward with that program and not have it stopped by another community or two or three communities that say well I don't like this and we are not going to vote on something and actually stop Manchester from moving forward. That is why we structured, for example, the supply contract that all the communities that are a member of this Aggregation Agreement or Administration Agreement are in that contract unless they opt out of the contract. That way it doesn't prevent any of the other communities from moving forward with it. We don't have to get a certain vote of communities to move forward. Those communities can opt out and that is the way we have tried to structure the whole process here. So again that Manchester can continue its program whether any other communities join it or not.

Alderman Hirschmann stated I want to thank Nashua and Keene for their contribution to our umbrella. What I have to say is that Manchester is going to go forward with this and in the near future everyone in the state is going to realize when free competition is here that they can get a kilowatt hour cheaper in Manchester. So it doesn't take too much to think. Your job is to retain your customer base, your high energy users in your towns. Heaven forbid they all move to Manchester. I always think of retaining my business customers by giving them the best possible price and this is an umbrella program we can all buy into and save those high energy users in our towns. This is a tool you are going to present to them. They don't have to opt for it, but this is going to be part of your economic development program to retain your own people and I think it is a real wise move.

Mr. Grills stated Mayor, before you close I want to make two quick points. Like I said I have done this and I have been involved in government and public policy for over 20 years and I can tell you that this Nashua and Keene's and Manchester's involvement you have played a major role in the making of public policies that comes out of this Commission and I mean a major role because I have been there and I have been in the hearings and I have seen the impact on that Public Utilities Commission and I think that is something that is of great benefit to your residents. The other thing is that I truly do believe that you are embarking on an incredibly creative, first time ever project here and, I think, will be in the limelight and there will be a lot of people across the country looking at this program and I think that is something that the cities can be very, very proud of.

Mayor Wieczorek asked Mayor Russell and Mayor Davidson if they would like to say anything to the group.

Mayor Davidson stated we have supported the initiative thus far in Nashua and I am hoping we will continue to do that. I think it is an absolute win-win idea. The consortium is going to pay for the administration of the program and in doing so all participants will have their share and Manchester will have their share as well as those others who are in it. So Manchester as an entity is not getting something for free out of this. The administration of the program will be shared by all of the participants and the end result is everybody who is in it is going to, without question, have a benefit not only for the community but for the residents in the community.

Mayor Wieczorek stated I would like to extend my thanks to the panel that made a very enlightening presentation here and thank everybody that has traveled here to Manchester. We are pleased to have you here. Have a safe trip home and we will be looking forward to seeing you soon.

There being no further business to come before the Board, on motion of Alderman Shea, duly seconded by Alderman Thibault, it was voted to adjourn.

A True Record. Attest.

City Clerk