

**SPECIAL COMMITTEE TO REVIEW ENERGY CONTRACT
AND RELATED PROJECTS**

November 21, 2000

6:30 PM

Chairman Wihby called the meeting to order.

The Clerk called the roll.

Present: Aldermen Wihby, Sysyn, Pinard, Shea, Thibault

Messrs: R. Sherman, T. Arnold

Chairman Wihby addressed item 3 of the agenda:

Discussion relative to the acquisition of the Amoskeag Hydro Station.

Mr. Sherman stated there are three things that we want to talk about. If the committee remembers, the Board has authorized us to file a joint petition with the City of Berlin. It is a petition with the PUC to get a value determination on what the plant is. We have filed that petition and the commission has issued their order on that petition. There is a hearing scheduled for November 30th which is Thursday. We wanted the committee to be aware of the fact that hearing is going on. We also told the Board back in July that if we thought at any point we were going to start incurring some significant expenses that we would also have to go back to the Board and get their approval on that. What we will tell you about this hearing is what we expect to happen at this hearing is have the parties discuss their positions, get some interveners in and actually set out a schedule and the process that the commission is going to follow forward. At this point we do not feel that we are spending significant money. Obviously there will be maybe a little bit of cost just in holding the hearing or if some party asked to have the hearing recorded there may be some cost. We expect a couple hundred dollars. It really should not be significant. So we do not feel that we really even need a vote at this point we just wanted you to be aware of the fact that this hearing is going forward. After this hearing once we have the schedule lay out we will then be able to prepare a budget and bring it back to the committee and go forward at that point. That is the first issue that we wanted you to be aware of.

Alderman Shea asked how long will this hearing take.

Mr. Sherman replied this one here starts at 2:00 in the afternoon and they very rarely go past 4:30 so 2 ½ hours max. I really do not expect it to be that long.

Alderman Shea asked what is the substance of that hearing.

Mr. Sherman replied it is really going to be to discuss with the parties, not only Berlin and Manchester but with any interveners or PSNH as far as what the process is going to be going forward. Are we going to pre-file testimony; how many witnesses are we going to be bringing in; are we looking at one or two hearings.

Alderman Shea asked does the hearing focus on the purchase of the Amoskeag Hydro Station.

Mr. Sherman replied on valuing the assets. Berlin is looking at the Smith Hydro and Manchester is looking at the Amoskeag Hydro Station. The reason we have combined is because we really figure there are going to be some differences but the main point of contention is so we can beat the price of power as we work off revenues. We only need to determine that once and then we could value both assets.

Alderman Shea asked because of the increase in oil and other energy does that tend to accelerate or raise the price of purchase.

Mr. Sherman replied I think the market price is certainly changing but you have to keep in mind that you are talking about a hydro plant. The output from hydro plants tends to sell at very low prices because it is not there when you necessarily need it. If you are trying to land a plane at the airport the water might not be running or we take the water down in October so people can work on the banks so it really sells for well below what they are getting from steam stations or nuclear plants or gas plants.

Mr. Arnold stated the only problem is this meeting on the 30th is what is called a pre-hearing conference. It is basically administrative work. One of the items in terms of cost that we discussed it under the statute the PUC can hire their own evaluation expert and bill that back to the applicants. In this case, the City of Manchester and Berlin as an expense of that hearing. I do not know what that is likely to cost but in addition to our expert testimony which we will need for this hearing will also most likely hire their own evaluation experts so I would see us having to pay that also.

Mr. Sherman stated hopefully we would know something on that by Thursday and again that would all be part of the budget that we bring back.

Alderman Thibault stated if I understand right, Randy, they are going to be assessing the cost of what they would sell this plant for and Berlin.

Mr. Sherman stated and what they will allow the municipalities to buy it for.

Alderman Shea asked in other words we come in here, obviously, their particular people come in here and then we...

Mr. Sherman replied then the PUC will be hiring an evaluator and they are going to look at our numbers and I am sure they will look at...they may come in and take a little bit of this and a little bit of that and they are ultimately going to come up and say this is the price.

Alderman Shea asked when we pay for the particular...

Mr. Sherman replied we would share that cost with Berlin. If it is going to be a two-day hearing and we could get some indication of what that price is going to be we will obviously need to go back to the Board with that. The second issue, at the last meeting that we had, we were talking about getting a Memorandum of Understanding to get an operator in. Some of the points that we had laid out that we were trying to get in this Memorandum of Understanding were that the City would be protected against any operating losses. That the lease payment that we got from the facility would guarantee that it would cover the debt service so that the City had no exposure on debt service and no closure on the operations. We have reached an agreement with Consolidated Hydro Energy. They run a lot of plants nationally but what they do locally is that they actually run the plant over by the West Side Arena. They run that one for the State of New Hampshire and they run a lot of the facilities down in Lowell. They have agreed to come in and administer, operate, maintain and manage the project for us. They will be responsible for all O & M and Capital items; they will make a lease payment at least equal to the debt service. They will protect the City against any net operating losses if there are operating surpluses they will share those with the City. They will be put in insurance provisions that protect the City from any liabilities over there so again if there were a breach the City would be totally "off the hook". They will work with the City to help in the re-licensing process. They will reimburse the City for any cost that we have incurred to date including the cost of going forward under this hearing. They will absorb any PSNH employees that desire to stay on. They may not keep them at Amoskeag but they may put them down in Lowell but they will make sure that the employees are protected. They will enter into a power purchase agreement with the City. If the City is interested in buying that power using it in the MAAP Program or just plain selling it to the market they will handle all that for us at the low market rates so again we will be

turning a profit just between retail rates and the rate that we could buy it from the facility. They will make a payment in lieu of taxes based on whatever price we pay for the facility. If you recall, the payment in lieu of taxes comes to the City yet if the facility is bought by a private entity the payment for taxes goes to the State for revocation funding. That in itself is a major bonus. They have also agreed...Alderman Gatsas had a concern over the fact that how do we know they are not going to "string" us along...they will also actually provide expert testimony as part of this hearing at no cost to the City. But they have also agreed...Alderman Gatsas had the concern that they were going to "string" us along and at the last minute walk away and go buy the facility themselves so what they have agreed to is if they buy the facility that the City has the right to buy the facility from them for the price that they paid. Again that gives the City the protection that these people are not playing games. If the City decides that it has gotten too rich and things are not working and they buy it we can go in and buy it for whatever they paid for it.

Alderman Shea asked my question is I am not quite sure why they would not want to buy it if they are providing all of the other types of mechanisms to run it and guarantees and so forth.

Mr. Sherman replied it pretty much comes down to the fact that with the City owning it, they can do it cheaper. They can operate it cheaper than they can if they own it. It is mainly due to the fact that we can borrow a lot less than they could. Now that they do not have to cover that extra interest that then gives them a larger margin to operate.

Chairman Wihby asked would the price be higher if they were going to buy it.

Mr. Sherman replied they would have to get into the bidding process and then again it is not low price that wins it is high price that wins. Consolidated Hydro is down in Andover Massachusetts as their home base.

Alderman Pinard asked is there any cost of...

Mr. Sherman replied in the negative and stated they are going to do that all up front and if the City buys it then it is no different than if they were going out and buying it. They would have to be doing all this for themselves and they just assume work with the City and help the City.

Alderman Thibault asked you said even the capital improvements that we have to be done to that. When we had it looked at by some engineers last year or the year before they said within six or seven years there would have to be some kind of a refacing.

Mr. Sherman replied in the affirmative and stated you have to reface the front. They will take care of those capital improvements but you have to understand they will be taking that out of the revenue. If there is an operating loss they are going to cover that.

Alderman Shea asked the energy that we get from that hydro plant what is it going to be used for.

Mr. Sherman replied that is still undetermined at this point. That brings me to my third item but before I move to the third item, there is one point here that I do want to bring up to you. What they have put in this provision that if we get all the way down to the end and the City "stiffs" them and says thanks for all your free advice and your consulting and your help but you we are going to hire company "xyz" they have in here that they want to be reimbursed for their cost. As staff, we did not have any problem putting that in there because we do not see that that is really ever going to occur but the point is if that does occur and somebody is making us a better offer any payoff that we are making to them we obviously would be getting from the new party to make it a better offer.

Alderman Wihby asked legally do we have to go out to someone else.

Mr. Sherman replied in the negative and stated we have done the RFP. Initially we had four parties and this is the best one that we have come up with. Alderman Shea asked about what we plan to do with the power that gets into the third item. We could obviously...we are buying this power for less than retail rates. We could either use it in the MAAP Program. Then once it is in the MAAP Program you could use it for a multitude of things. Maybe economic development or for municipal accounts or to entice residents in. But you could do a number of things with it once it is in the MAAP Program. The other thing you could do is sell it right into the grid and then use cash as part of the MAAP Program maybe to buy down some rates. The other alternative is a group called HEFA, which is the Health Education and Finance Authority out of Massachusetts, has approached us. What HEFA's main goal is they do all the financing in Massachusetts for their hospitals and for their colleges and universities. HEFA has a group of about 260 members I believe; you are talking the Harvards and the Mass Generals. What HEFA did down in Massachusetts is they aggregated all of their members. They have some members and one mentioned was Harvard University that says we want green power. We do not mind paying a premium but we want green power, not coal we want something green. HEFA cannot find green power so they have contacted the City of Berlin and Manchester to say if you buy your hydro plants we want your power because we have people whom will pay a premium for it. So rather than just selling it into the grid somebody else is willing to actually pay you

a higher rate for them to buy that power. That option is out there and even makes the numbers look even better. I am not asking...I just got an executed copy of this agreement faxed to me an hour or two ago so I am not asking today any action on this. My recommendation at this point would be we are going to go up to the hearing and not to execute this until after the hearing. That way if we come back and you do not like the budget or we do not like the process, we could just walk away and we do not have an executed MOU at that point.

Alderman Wihby asked so what are you looking for from us today.

Mr. Sherman replied absolutely nothing. This was just an update and to answer your questions.

Alderman Wihby asked how much power is this going to generate. Is it enough for the City of Manchester.

Mr. Sherman replied it generates about twice as much as what we use for our municipal accounts.

Alderman Wihby asked is that enough to do a municipal plus the City.

Mr. Sherman replied it would all depend in the number of participants that you get. But most likely not. It generates enough to do about 30,000 households but that is not households and municipalities.

Alderman Wihby asked how much would we actually save.

Mr. Sherman replied we would probably be generating in the 2.5 to 3 cent range. The market rates right now are over 5 cents. So if we can get it to the City at say 3.5 versus buying it for 5 cents you are saving 2 cents a kilowatt which is about 20% which is about 1.5 million per year just on your municipals.

Alderman Wihby stated so the article that you have is wrong.

Alderman Shea asked if you sell it to HEFA do you set a premium price of 7 cents.

Mr. Sherman replied I might be able to sell it to them for 4.5 cents. Now we divide the 3.5 versus 5 cents I could sell it for 4.5 and keep that extra penny as well.

Alderman Wihby asked would that all come to the City.

Mr. Sherman replied that would all come into the City. At that point you could decide do you leave it in and let the aggregation program play with it or do you move some of it to the general fund. It really would be available to do whatever you wanted to do.

Alderman Shea asked how long did it take for that.

Mr. Sherman replied you would start to notice it from day one.

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

A True Record. Attest.

Clerk of Committee