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Following is the text of a letter sent Aug. 17, 2005, to the chief officials of Mid-Connecticut Project cities and towns:

August 17, 2005

Subject: Mid-Connecticut Project Update, MDC Arbitration and New Hartford Lawsuit.

I am writing today to provide you with an update regarding two important issues of interest to the 70 towns of the Mid-Connecticut Project. As you know, the new Board of Directors and Management of the Connecticut Resources Recovery Authority (CRRA) have, since their appointment in the wake of the failed Enron transaction, focused on rebuilding the CRRA from the ground up. Our new business model is founded on openness, transparency, accountability, environmental excellence and commitment to the best interests of our 70 customer cities and towns. We have been working diligently, along with the Attorney General, to pursue compensation from the parties responsible for CRRA's Enron related losses. Additionally we have been relentless in our pursuit of operations cost savings to minimize member town tipping fees.

This new focus has paid handsome dividends. Our success in bankruptcy court and the sale of our bankruptcy credits yielded over \$111 million dollars for the Mid-Connecticut Project. Our cost containment initiatives and review of all contactors performance has yielded millions in annual savings -- clear benefits to the Project municipalities that will further hold down tipping fees. Note that had CRRA not taken these proactive steps disposal fees would be approaching \$100/ton instead of the present \$70/ton.

Today, I have two issues of interest to update. First I am pleased to inform you of the results of the recent arbitration between CRRA and our major contractor, the Metropolitan District Commission (MDC). On August 5 the Arbitration panel ruled that MDC has overcharged the Connecticut Resources Recovery Authority by more than \$12.7 million since 1996 and must reduce the price it charges CRRA for the remainder of the contract term. Echoing findings of previous arbitrators, the panel ruled that MDC was improperly calculating the amount of overhead or "indirect costs" it was charging CRRA and ordered MDC to charge a lower fixed rate for those indirect costs. That portion of the ruling is expected to save CRRA and its Mid-Connecticut town ratepayers \$532,000 in the current fiscal year. This ruling follows previous beneficial rulings that affirmed CRRA's right to replace MDC as a contractor for cost, quality or performance that resulted in CRRA hiring a lower-priced contractor to run four transfer stations. You may recall that the transfer station contractor change completed this past year saves Mid-Connecticut Project cities and towns more than \$2.4 million per year.

Our contract with MDC includes a prohibition against past damages thus preventing CRRA from recouping the full \$12.7 million in overcharges. However, this most recent arbitration ruling did provide for the payment of \$5 million of escrowed funds to CRRA. As these funds represent unwarranted overcharges by our contractor, it is the desire of the CRRA to return these funds, when received, directly to the member towns.

Unfortunately, we will not be able to return the full amount back to the towns. This is due to the second issue of interest, the continuing legal proceedings against CRRA by two member towns. This lawsuit, Town of New Hartford v. CRRA et al (including former CRRA executives and Directors) continues to consume substantial resources. I have never discussed with you, our member cities and towns, the merits of the case, and do not intend to do so. Our legal team, under the management of the Attorney General is capably addressing the case in its proper forum - the courtroom. However, since becoming president of CRRA in 2003 I have always strived to keep you up to date on key developments that could impact our finances and the project tipping fee. The potential ramifications of this New Hartford action on your town and its solid waste disposal costs are significant and substantial.

To date more than \$500,000 has been spent defending the CRRA and its former directors and executives (CRRA is required by statute to indemnify its directors and employees) in the preliminary pretrial stages of this lawsuit. Additionally, the lawsuit has demanded management time and resource contributions that have been costly and impacted the CRRA's ability to serve its customers as efficiently as we otherwise would. Fortunately, the CRRA insurance portfolio provides for financial assistance in defending against this suit. However, the potential costs of an unfavorable ruling against CRRA require us to consider tipping fee increases and creation of reserves. Although the actual tipping fee impact in future years due to an unfavorable ruling in this case is not clear, the CRRA will plan on reserving a portion of this MDC settlement for the future legal costs and mitigation of future fee increases.

The impact to the Mid-Connecticut Project expands well beyond simply the costs of defense. Regrettably, we know that this lawsuit against CRRA has precluded a multi-million settlement from a key defendant in the AG managed lawsuit against the Enron defendants. Additional settlements that would bring tens of millions of dollars to the Mid-Connecticut Project are similarly impeded while this New Hartford suit works its way through the courts.

The New Hartford lawsuit is still in the preliminary, pre-trial stages. On August 10th, the Court granted motions to dismiss filed by all of CRRA's co-defendants, and made a number of significant findings. In its Ruling, the Court found that the Attorney General was aggressively pursuing the money lost by CRRA due to the Enron Transaction; that no significant diversion of assets from the Mid-Connecticut Project took place as a result of CL&P's payment of \$60 million to CRRA; and that CRRA has recovered much of the other funds alleged to have been diverted from the Mid-Connecticut Project consistent with the Authority's statutory duty to mitigate losses due to Enron.

As a next step, we expect the court to be considering class action status for the suit. The class action process, if successful, could result in the bundling of all 70 towns into a class action plaintiff group to sue the CRRA. This process is likely to involve a lengthy and expensive

discovery process that would further delay adjudication of the case. Reasonable estimates for the defense of the case range from \$1.5 to \$3 million over a period of 2 to 4 years. The more this suit costs, the greater the potential impact on your tipping fee. While acknowledging the possibility of an unfavorable outcome in the New Hartford suit, it is important for you to know that the CRRA is committed to fair and equitable distribution of any funds, regardless of individual town's participation in the lawsuit against the CRRA.

I trust this update provides you with some assurance that the new CRRA is effectively addressing the challenges of operating in the interests of the 70 Mid-Connecticut project towns. I speak for the entire organization when I say we are committed to be open and transparent, accountable and efficient in providing environmentally sound, effective solid waste and recycling services to our customers and stakeholders.

As always, should you have any questions please don't hesitate to contact me.

Sincerely,

A handwritten signature in blue ink that reads "Thomas D. Kirk". The signature is written in a cursive style with a large, stylized 'T' and 'K'.

Thomas D. Kirk
President

TDK/dgt

Cc: CRRA Chrono File