

COMMISSIONERS OF PUBLIC WORKS

Minutes of April 3, 2007

A special called meeting of the Board of Commissioners of Public Works was held on Tuesday, April 3, 2007, at 9:00 a.m., in the conference room of the Greenwood Commissioners of Public Works at 121 Court Avenue.

In attendance:

Gene P. Hancock	Steve D. Reeves, Jr.	Jeff Meredith
Michael G. Monaghan	Kenneth Barnett	Jeff Chapman
Henry O. Watts	Denise Ogletree	Ron Lemon
	Ken Whittle	Jeff Auman
	Sheree Brown,	Jerry Spearman
	Utility Advisors' Network	

- I. Chairman Hancock called the meeting to order.
- II. Chairman Hancock gave the statement of compliance with the notification provisions of the Freedom of Information Act.
- III. Other Business:
 1. Chairman Hancock noted a request from Mr. Jerry Spearman, Jr. to address the Board. Mr. Spearman presented information and a request regarding future plans for property owned by CPW and referred to as the old watershed property. Chairman Hancock clarified that Mr. Spearman was talking about the city pond property. Mr. Spearman stated that there was approximately 700 acres; Manager Reeves clarified it as 687 acres. Mr. Spearman asked the Board for consideration of putting that property up for bid. He stated that he had a ready and willing buyer who would be willing to participate in running the sewer out and provide additional infrastructure for the City, and possibly donate land for a fire station, athletic fields, or whatever is needed. He stated that their idea was for a multi-phase development to include some light commercial shopping centers but would be mainly residential. He explained that the draw would be to bring people in from out of the Greenwood area, probably even from out of state with a market geared toward retirees. He explained the reason for interest in the property because of the belief that it is very unique due to the natural beauty. He added that they are extremely interested in preserving the green space and developing it in an environmentally friendly manner. He pointed out an abundance of large white oaks in areas that would make great public parks. He

stated a desire to see the area developed in a special way to preserve the character. He noted that the front of the property had been timbered but the back had a lot of old oak trees and beautiful lake. He stated that there was an interested buyer for the property who would like to do a development. He again expressed an interest in bidding on the property and asked the Board for consideration of starting the bid process. He added that they would also like to talk about participating in limiting CPW's liability so far as running the sewer there by picking up part of that cost and add amenities to the community. Chairman Hancock noted that sewer was already in Metro's long-range plans for next year. He added that the property had already been annexed into the City. We would put the electricity there and water is not too far away either. As far as infrastructure goes, that would raise the price in our behalf. As far as sharing costs, it might be something that could be worked out in the bids. He stated that if we did anything, we would have to put it out for bids. Mr. Spearman responded that was something they would like to do. He explained that they think right now is a good time to get development started because of the belief that in two to three years the real estate market will make a pretty big upturn and they would like to catch it on the upturn. If you wait a year, conditions may change, but right now in a very short period of time they could purchase the property and would not need a very long due diligence period. They have a buyer willing to participate in putting the infrastructure there. He stated that while they understand the value of the property with sewer there, it does not have a big impact as far as they are concerned with the value of the property. They think the value of the property is inherent in the property itself because it is a fabulous piece of property. He stated that they know sewer will be out there and those are the types of things you have to consider in taking your bid. If CPW is not happy with the bid, you can always run sewer out there and bid it out a year later. He stated his belief that having the developer to pick up the tab for part of that would be very palatable to the people who live in the City and the County if they did not have to pay for that for a developer. He stated that they see that as a growth area for Greenwood and would like to see that area developed in the right way and not piecemeal with tract houses, and they are ready, willing, and able to do that. He stated that if the Board were to put it up for bid and give them a little time to study what is needed, his company and probably others would be willing to work with CPW to make that happen and to do whatever is in the best interest of the taxpayers. Chairman Hancock stated there is already an agreement with the City on developing subdivisions; CPW

works with them on roads, fire stations, etc. He stated that as far as infrastructure, the contractor who ends up there goes in and puts that in and then CPW refunds their cost over time; it ends up they don't have to pay anything. If it ends up they don't have to pay anything, we are going to have to get pretty good money up front to pay for all of that to start with. Chairman Hancock stated that we do not want to jump the gun right now unless something was really extraordinary. Mr. Spearman stated that they were not just talking about your average, typical subdivision. They are talking about a master-planned, unique community that will be a big draw for the area and help draw industry and retirees here. Just putting up a bunch of houses will not do a lot for the community. They are looking at something that would increase the tax base by bringing residents from other areas here and that would have recreational components. People who retire would have things to do within the community; they would have public access to parks for people who do not necessarily live within the development; there would be shopping centers and that area would be kind of a catalyst for growth in that part of the County and City. He stated that could be worded in a bid proposal in such a way that if it is found to be unacceptable, CPW can always say that they will not accept any bids now. Mr. Spearman pointed out that timing is everything with real estate and right now timing is critical. He stated his opinion that there may not be any serious buyers, if you go out to bid this property and the real estate market is kind of at its peak. He noted that the timing was good to catch things while the real estate market is a little soft because you know it's coming back up. He stated his belief that was where we are right now. This is an ideal time to start developing new properties because a year from now it may not be. He stated that they could bring together a serious amount of money to put in everything needed to go there to make that property a huge draw for Greenwood. Chairman Hancock commented on the need to have something come back to the ratepayers and to hold rates down. CPW's intent is to also have a return for the City and good taxable property. Commissioner Monaghan asked if they were talking about a complete cash transaction. Mr. Spearman responded that they were; money on the spot. Eventually they would have at least 1,000 residential units with some combination of homes and upscale patios homes and condominiums in that property as well as a commercial component which would probably be a shopping center. They would work with a land planner and are talking about a couple of different ideas. Mr. Spearman stated that those ideas cannot be made public at this time because of marketing and because that particular location could be a

huge draw. He stated his anticipation that the majority of residents in that community would come from out of this area, for example, people migrating to the coast from Florida, Ohio, and New York. Rather than being a transfer of the tax base, it would raise the tax base. He concluded by noting that when you have that many new customers, everyone would be happy. The Commissioners thanked Mr. Spearman.

2. Manager Reeves defined the potential bond issue as a valuable component of the rate study and distributed a list of bond projects put together by staff. He stated that each department director would be presenting information and justification for the projects in their areas. He reminded the Commissioners of discussion on a number of capital expenditures during the time of the budget process. Because of the expense, it was suggested at that time that these expenditures be postponed or at least taken out of the budget proceeds and put into a bond issue to keep from affecting rates so severely this year. Mr. Reeves stated that other projects were put together for a ten-year capital improvements program, and noted that many of those projects were also included in the proposed bond issue. Mr. Reeves explained that one of the reasons was that the cost of money right now is fairly low. He reported that the investment bankers had indicated an interest rate of somewhere in the 4 – 4 ½ % range, and Edward Boyles had quoted 4.28%. He added that we would be hitting right at the bottom of the market. He stated that it would be good to move ahead and cover the majority if not all of the projects at this point. Mr. Reeves added that if the Commissioners had a major feeling one way or the other about any of the projects, those projects could be deleted and others added. He noted that projects are not set in stone; once the dollar amount is set, these projects can be changed over time at the discretion of the Board. Mr. Reeves stated that a good overview would be provided today, and if there are questions those could be addressed in more detail later. He added that this would obviously have an effect on the rate study; however, taking a few projects out here or there would not. Chairman Monaghan asked if this might be a little premature since the Grace Street Water Plant issue had not been resolved. Mr. Reeves acknowledged that would have an impact on what is done with the bond issue. He stated it would then be a question of whether to invest it or apply the proceeds to the bonds, and pointed out that there are advantages to doing both. Mr. Reeves He added that it could be delayed until after Sheree Brown's presentation with the understanding that presentation goes under the assumption we would issue a possible \$10 million in bonds.

Commissioner Monaghan asked in what way. Mr. Reeves responded that if the amount of the bonds were reduced, it would then reduce the amount of the rate increases proposed. The study was done under the assumption that all of the projects would be done. Mr. Reeves suggested at least highlighting the majority of projects today and getting into more detail later if needed. Each department director presented projects identified for a possible bond issue from their respective areas. At the conclusion of the presentations, Commissioner Monaghan stated that it was obvious staff had given a great deal of serious thought to the projects on the list. Mr. Reeves stressed the need to quickly obtain final approval of the list. He asked the Commissioners to advise him of any cause for concern, adding that otherwise, they would be requesting permission to start the process of issuing the bonds to catch the low rate.

3. Ms. Sheree Brown with Utility Advisors' Network stated the purpose for the presentation which was to provide an update for the 2006 combined system rate study to incorporate 2007 revenue requirements. The study was also done to determine if present rates are sufficient to cover costs of operating, owning, and maintaining the electric, water, and gas systems, and to determine if CPW should modify any rate design to more appropriately recover costs and meet market conditions. She referred to a previous presentation back in November of 2006 at which time the Commissioners decided to wait until after the 2007 budget was done to avoid having "pancake" rate increases. She explained the method of evaluation whereby they took the test year revenue requirements based on the 2007 budget, along with an allocation of administrative costs, and calculated purchased power/natural gas cost based on a ten-year weather-normalized forecast. Ms. Brown noted that numerous rate design issues had to be evaluated and then referred to the 2007 bond issue and annual debt service requirement. She explained that there would not be a full year of debt service in 2007, but for purposes of setting rates an annualized amount of debt service was included for the last half of 2007 and the first half of 2008. She stated that the annual debt service requirement without deferral of principal and interest would be: \$220,788 for electric; \$350,708 for water; and \$126,318 for gas. Based on the amount of money spent in the improvement plan, they ran two different options. One option assumed using the debt service and the other assumed the principal and interest payments were deferred to 2009 to coincide with reduction in debt service on the 2003 bond issue. Ms. Brown explained current debt service cost for each system and what would happen to debt service in 2009 when a big chunk of the 2003

issue is paid off. She stated that large reductions with both the electric and water systems are expected at that point when the electric would be \$426,374; water \$1,041,529; and gas (\$2,779). Ms. Brown noted a 2.4% reduction expected for electric, and 10.76% for water. She explained the reason gas was so small which was because they received a very small allocation, if any, of the 2003 issue. Ms. Brown then explained the effects of the 2007 bond issue. She stated that with the reduction in debt service, (noting that if the principal and interest is deferred), the net impact on rates would be a reduction of \$183,761 for electric; \$656,153 for water; and an increase for gas (\$141,584). She added that even with new debt coming in 2009, there would still be a reduction for electric and water. Ms. Brown then provided a system cost of service analysis for each system both with and without the deferral. She noted present revenues of \$17.7 million with electric; with new debt service included the revenue requirement would be \$17.6 and would not need a rate increase because of receiving revenue in excess of the requirement, to the extent of \$107,000 or pretty much break even. She reported that if the principal and interest were deferred, the revenue requirement then drops to \$17.3 which means there is an excess of \$328,000 and shows that you could actually have a rate decrease. However, because it is weather-normalized, the recommendation is to leave it at break even and not change rates other than rate design issues. She reported present revenues of \$9.7 million with the water system. If you add the debt service it would go up to \$10.024 million which would mean an actual increase required of 3.6%; however, if you deferred that debt service, then you would be pretty much break even and would not need to change rates other than rate design issues. Ms. Brown pointed out that the situation is different with the gas system where the present rates are \$8.7 million and that is the base rates, and right now includes all of the cost of operating and maintaining CPW's system, plus the cost of the pipeline demand charges. She reminded the Commissioners that the pipeline demand charges were moved out of the PGA and into base rates a few years ago. She noted that the \$8.7 million included the recovery of the pipeline demand charges. The revenue requirement now with the new debt service went to \$7.2 million on base rates alone and the pipeline demand charges as estimated right now went to \$3.4 million. She noted that the revenue requirement increased to \$10.6 million with the new debt service. She reported that the pipeline demand charges had only been \$2.5 million per year, but Transco had a rate increase filing at the Federal Energy Regulatory Commission. Although that is subject to refund right now, the impact of the rate increase filing is that the

pipeline demand charges increased to \$3.4 million which is an \$800,000 increase. Ms. Brown stated that including both the new debt service and the increase to the pipeline demand charges, we would be facing a \$1.877 million increase in the gas system cost of providing service. Measured against the present base rate, that would be a 21.5% increase on base revenues. The actual impact on customer bills would be 4% overall; about 7.5% on both residential and commercial; and an average of 1.44% for industrial. Ms. Brown noted that fuel is about 80% of what goes out, and what the customer would see over the year would be 4%. She added that deferring debt service would help a little; it would drop the overall increase required to 1.751%. Ms. Brown pointed out that \$800,000 would be for the Transco increase; approximately \$400,000 would be for increases in budget requirements; and the remainder would be due to the reduction in sales that have occurred over the past few years because of milder weather. She further explained that part of the reduction is due to larger industrial customers shifting to electric or other energy sources. Ms. Brown continued with a recap of the electric system showing that without the new debt service, there could be excess revenues of \$107,000; and excess revenues with debt service of \$327,000. She pointed out that both would be pretty much break even; therefore, a change in the overall rate is not suggested for electric. However, there are some concerns with the large power rate design. Ms. Brown outlined concerns with how rates must compete with Duke Power for customers with similar load characteristics. The marginal costs of larger customers with good load characteristics are greater than the marginal revenues, thus making it difficult to add new, otherwise attractive load. She noted that large customers are receiving disproportionate benefits due to size alone, rather than load characteristics. Ms. Brown outlined objectives showing how the rate should provide a margin over the incremental SCE&G costs for new load; rate changes should not be extreme for the CPW's customers; the rate should remain as competitive as possible against Duke's rates; and customers with similar load factors should receive similar benefits. Ms. Brown provided an evaluation of rate design issues by first explaining how the rate declines with large power customers during the first 400 hours used so that the large customer gets that benefit over a small customer who may not get out of the first block. She stated that the preference was to go with something that recognized load factor as opposed to size, and noted that they tried to do that without causing drastic shifts for certain customers. She explained that the first three blocks within the first 400 hours use have been collapsed and are now

identical with only hours over 250,000 kWh to be given a discount in the first block, and a few more dollars were shifted over to demand. Ms. Brown explained that a high load factor customer will use a lot more energy for the amount of demand they place on the system. She explained the advantage with customers using energy around the clock under a lot of different rate designs from the wholesale supplier because they give you a block of energy from a base load unit such as a coal or nuclear unit where the energy costs are very low. She explained that the issue causing our inability to match Duke's OPT rate is that under the SCE&G rate, we are charged an average system fuel cost regardless of when we take it or our load factor. She noted that they have to do the best they can due to a lot of different conflicting criteria, the cost incurred, and the type of customers. She stated that after using this rate against the SCE&G incremental load-type customer coming in, they ended up with margins in all situations with the proposed rate design. They then ran it against the Duke Schedule G rate and found it improved our situation. We are competitive against Duke at all different levels; with some we were way better than Duke, and with some we have closed the gap a little. Overall, they ran it against every large power customer divided into four different groups to look at who was being harmed by the current rate and who deserved a larger rate increase or decrease, and that was used as a guideline rather than splitting rate classes. Ms. Brown noted several customers less than 50 kW that are misclassified now in the large power rate and should be in the regular commercial rate and were moved over in the cost of service. She added that a little money would be lost on those customers by shifting them over; however, that was built into the cost of service, and it still works with a break even position to move those customers back. She noted that these rates were run on every customer in the database from 2006, with the highest increase being 3.6% in the higher load factor; 2.6% in the middle load factor group; and only five customers greater than 4.5% in the low load factor group. Ms. Brown pointed out they are placing a big demand on the system and only buying a little bit of energy. For that reason, they are really the worst customers. She noted that the Emerald High School ball field was the only one of those five who was greater than 10%. She pointed that by combining their bill with the high school regular bill, the overall increase would only be 3.5%. Ms. Brown reported that the increase required with the 2007 debt service for the water system was 3.57% for retail and 5.80% for wholesale. She noted a break even position for retail and the need for a 1.85% increase on wholesale with the debt service deferred. She stated that they typically used an across-the-

board type increase with wholesale. Ms. Brown commented on the need to make a decision as to whether to implement impact fees. She stated that they went through current revenue requirements with and without debt service on the 2007 bond issue and found that the AWWA had meter-weighting factors that were not being followed and that it would be appropriate to shift to those. Ms. Brown stated that they discussed implementing a charge for the first 400cf that is being recovered through the meter charge now. She stated that the first 400cf is basically a "freebie" and referred to past discussions about correcting that situation. Ms. Brown explained the current rate design with the first 400cf is at no charge, and a charge for the next 15,000cf. She noted the question of whether the meter charge is sufficient to cover all of the volumetric charges that should be covered, and stated the opinion that it is not. Commissioner Monaghan asked for clarification on the base rate for residential. Mr. Reeves clarified that the \$7.84 charge may not be sufficient to cover the base charge for the meter being there plus the 400cf of water, therefore, that number would have to go up significantly. Commissioner Monaghan stated that this was opposite of what they were doing at Metro where they had an \$8 base charge and on top of that charged for the first 400cf of water and did away with that. Mr. Reeves stated that Metro now charges a base fee plus a charge for sewer for every 100cf of water. Commissioner Monaghan stated that before they charged for 400cf whether or not it was used. Ms. Brown stated that was essentially how these rates were designed; the assumption is that the charge is in the meter charge. She clarified that if she went back and looked at the individual customer-related cost, she could probably not make the claim that it was actually recovering all of the costs. Commissioner Monaghan stated his understanding of what Ms. Brown said as being that there is a volumetric element in the base rate. Mr. Barnett stated that Metro had another fixed charge on top of that whether the 400cf was used or not. When you combine them, it is like what CPW has with our meter charge because they are both fixed charges. He stated that it was split into two pieces that are equivalent to the \$7.84 we have on a meter charge because the \$7.84 has a volumetric piece in it. Mr. Reeves noted that the Commissioners wanted that taken out and that was what Ms. Brown was saying. She does not feel that the \$7.84 actually covers the system and the volumetric. Ms. Brown continued with an explanation of the capacity fee analysis. She stated that a monthly service availability charge was established by increments based upon standardized capacity criteria established by the American Water Works Association (AWWA) relative to the size of the water

meter. Ms. Brown stated a desire to move toward elimination of the zero to 400cf discount. She noted a discount right now over the 15,000cf level that brings it down 60% so that anything over 15,000cf is only 40% of the first block rate, and stated the belief that there is not justification for that big of a discount. Ms. Brown provided an explanation of the proposed rate adjustments based on meter size and the equivalency factor. She stated that total water revenue requirements were split between customer-related, availability-related, and volume-related. She pointed out that the majority of costs were availability and customer-related, yet the lion's share of cost is recovered in a volume charge. She reported that under-recovery on customer and availability charges by \$3.5 million and over-recovery on volume related by \$3.5 million. She stated that the current rate structure only has a meter charge collecting a small amount, and because the meter charge is not covering the fixed charge or availability cost, it is impossible to cover the volume charges for zero to 400. Theoretically, we are trying to get it through a meter charge, but are not really recovering any volume cost in that meter charge. Commissioner Monaghan asked about completely eliminating the meter charge and making it all volume related. Ms. Brown responded that you could, but if anything she would prefer increasing that charge because that it is more fixed in nature which means you are going to recover your fixed cost. She added that the only reason we keep it low is because it has been historically low; other systems do it that way and throw more into the volume charge. If anything that charge should go up, although the little guy is going to get hurt when you put it into that charge. Commissioner Monaghan asked if other water providers had meter charges. Ms. Brown responded that everyone she was aware of did. She stated that an average household water bill would increase for everybody at the same rate, adding that she had not run those out yet. The percentage increase for some would be pretty hefty even with the graduated movement, but would not be "dollar-wise". Ms. Brown referred to the AWWA standards by meter size and the equivalency factor and then provided a bill comparison for the rate adjustment both with and without 2007 debt service. She pointed out that the proposed meter charge would go from \$7.84 to \$7.00; the monthly flow with 200cf customers would go from \$7.84 to \$8.43. Ms. Brown provided an example of a 400cf customer where there would be an increase of \$2.01; but percentage-wise it would be 25.7% increase. She explained that the current rate has no charge for the first 400cf; 1.8041 for the next 14,600cf; and .7262. after that. She pointed out there was a 60% discount in that group for which there is no real justification. The

goal was to bring the highest block rate a little closer percentage-wise to the middle rate, bring the middle rate down, and add to the lower rate. Ms. Brown recommended a charge for the first 400cf of .6769; the next 14,600cf of 1.3537; and the third block of .7445. She stated that the relative discount from the last block was reduced and an approximately 50% rate relative to the middle rate for the first 400cf was implemented. All customers with meters greater than $\frac{3}{4}$ -in. would see impacts as a result of applying the AWWA meter factor. She stated that the middle rate would come down; the upper rate would go up a little, although their other charges would be less. Ms. Brown offered to provide Mr. Chapman with a more comprehensive comparison of larger customers. Ms. Brown provided a general definition and purpose of the water system capacity fee analysis. She noted that it could be accomplished with a one-time charge implemented as a means to recover in part or in whole the costs associated with capital investments made by the utility in order to provide service to future users of the system. She stated the purpose which was to assign growth-related capital costs to those customers responsible for the additional costs. Generally, this practice has been labeled as "making growth pay for itself". If you take the costs and look at the capital improvement plan for the next five years and the debt service, you can then determine an average cost per gallon of capacity, and these are the capacity fees you would charge for customers coming on the system with the various meter sizes. She stated that DHEC had standards that could be applied at \$3.38 per unit based on factors related to the type of business. She noted three methods for calculating capacity fees, either by meter size, capacity flow basis, or customer type basis. Ms. Brown recommended basing them on meter size rather than having to address flow size for each meter with each customer. Ms. Brown provided a comparison of capacity fees for other utilities in the state. Mr. Reeves stated that the recommendation would be to charge somewhere around \$500 to match what Metro does on the sewer side to get started so that we at least get the process started; then phase in the increases to get up to what it should be. Discussion continued on charging tap fees for every tap on the system. Mr. Reeves noted that an exception could be made for sprinkler systems because they do not have an everyday impact on the system and are typically used at off-peak times during the early morning or late evening. Commissioner Monaghan inquired as to what other utilities do. Mr. Chapman referred to legislation on impact fees and numerous other fees. He provided an example of the City of Columbia whose tapping fees are much higher than CPW. Mr. Chapman stated that the capacity

fee is basically reserving the capacity in the plant and does not include the tap fee for the meter actually making the tap to the system. Commissioner Monaghan noted that Metro charges a lower impact fee that hits the developer up front; there is a transmission fee that can be charged as part of the mortgage with each house sold. Mr. Chapman suggested not charging the same capacity fee for a resident with a second tap for a sprinkler system because it does not affect the capacity the same as two separate taps. He stated that you could be pushing more water through that meter, but as far as an overall residential unit, you are not using your sprinkler system and the amount of water people normally use to irrigate the lawn and garden. Commissioner Monaghan asked Ms. Brown about doing everything by ERU. Ms. Brown responded that it is "cleaner" to go by meter size and added that fewer questions would come up from customers about where they fall. She noted examples provided by ERU for various customer types, and that there are standards that can be used. Mr. Reeves suggested making it part of the policy to have no ERU charge for someone with a 5/8-in. residential meter who added a second for sprinkler purposes; he added that \$500 could be used as the ERU. Mr. Chapman commented on how that would be fair with irrigation systems, with the exception of larger irrigation systems such as greenhouses or golf courses. With just a lawn irrigation system you could forego the capacity fee issue because all you are really doing on the sprinkler system is trying to get a true water billing cost without affecting the sewer cost. Mr. Barnett suggested charging at the 50% level with commercials because there is a greater demand on those sprinkler systems. Mr. Chapman suggested leaving the commercials at the discretion of the Board and reviewing them on a case-by-case basis. Ms. Brown stated that based on the current expected growth for 2007, revenue would have to be about \$316,410.80. If you cut that in half it would be around \$158,000 on an annual basis. She stated that was not put in as a reduction in the revenue requirement; it could be held in reserves and used for other capital improvements or the debt. The Commissioners discussed impact fees and their affect on developers. Commissioner Monaghan asked Ms. Brown if other utilities get it all up front or as they build a house. Ms. Brown responded that she believed there are utilities that come up with financing methods to allow developers to pay over time. Mr. Reeves stated that he could make the argument that an impact fee would not be charged until the house is built because there is no impact on the system until it is built. Commissioner Monaghan asked if \$500 only brought in about \$150,000 per year and added that may not be worth doing. Mr. Barnett

commented that \$150,000 would cover a good portion of water's debt service. Chairman Hancock inquired about a law for use of impact fees. Ms. Brown responded that impact fees cannot be used for replacements and must be used for new growth. She added that it could be used to offset debt service for water. Ms. Brown continued the presentation on rate design issues for interruptible customers who are exercising options to utilize alternative sources of fuel or switching to electric because of deals Duke gives them. She referred to discussions back in December and a problem with interruptible rates paid by these customers being volumetric. She reported that they are given the wrong price signal when they switch. They look at the incremental cost of getting their supply elsewhere, but are able to avoid everything involved with gas cost including the fixed cost because the rate is purely volumetric. She noted discussion about moving toward a rate that would better recognize the maximum demand placed on the system. Ms. Brown noted that the issue with Transco has made it even more difficult to address because of relatively fixed costs. She stated that they looked at unbundling the rates and implementing a pipeline demand charge adjustment clause that would be separate from the gas adjustment clause. She explained the reason that gas is volatile relative to the pipeline demand charge where the approximate monthly amount is known once it is contracted yearly. She explained that a couple of the criteria could be met by unbundling the rates and offering a distribution-only rate and basing only the base rates on distributions. In that way, if a customer wants to bring gas to the City gate, CPW could take it from there and deliver it. She noted that in case there is a FERC ordered refund, there would then be a method of tracking recovery and giving it back. The pipeline demand charge adjustment clause would assure monthly recovery of the pipeline demand charges. She noted an issue a few years ago when it was recovered through the PGA clause. When it was in the PGA the reports appeared to show an over-recovery when in fact there really wasn't because it had to cover some of the summer months' cost. She noted that it was removed and put back into the base rate to avoid confusion. Ms. Brown presented a way that would allow for the actual recovery of the pipeline demand charge each month as it is billed, and that would shift \$3.5 million out of the base rates, and unbundle the rates into the distribution-only, the pipeline demand charges, and gas cost. She noted that there would be three different components on the bill, and explained the methodology whereby they first allocate the pipeline demand charges to the classes based on the previous year's winter months' sales. She stated that this methodology recognizes that when

we contract for pipeline transportation capacity, that is done based on the amount used in the winter months. Last year in the study, they were basing the amount that went to the interruptible class on what the capacity release value would be. In doing that, they came up with between 10% - 12% that would be allocable to the interruptibles based on the fact that they could have instead released that capacity instead of using it to serve them. Ms. Brown explained that with using this methodology and applying 20% to all classes and 80% just to firm, they came up with about 11% that the interruptible industrials would be allocated on the pipeline demand charges. Once that is allocated to the classes, then instead of having that be a volumetric rate for the industrials, it would be based on their maximum daily quantities. These industrials have the option of going to an alternative source of fuel and drop for a week, for example in January. Ms. Brown explained that by doing that, they are able to avoid 25% of what they would have otherwise paid for the transportation costs. Yet, sometime in January they may be back on fully and they may be causing that demand on the system that has required the capacity. By going to a Maximum Daily Quantity (MDQ) rate, it allows us to charge for the capacity we are really keeping because of them. Commissioner Monaghan asked if this would price us further out of the industrial market by causing those customers to seek alternate fuel because of the even higher price of gas. Ms. Brown responded that they would go to the alternate because they can avoid all of the costs. She stated that now they would go off the system in total for the entire month in order to avoid all of the charges. This way would really give them the appropriate price signal. She continued by stating that the overall rate increase would not be substantial; only about 1.5% for industrials; however, some of these customers particularly those who are "gaming" the system because they are able to get off and have us reserve the capacity for them but only use it when they can't do something else, those customers would see a much bigger increase in December, January, and February when they would normally play that game, and they would have a lesser increase in the summer. She stated that overall for the year, they are still looking at about 21% on base rates and 1.5% including the overall fuel cost. Mr. Barnett added that this allows us to develop a distribution-only charge where they do not get any of the fixed charge. If they want to go out and get gas and buy the capacity on the Transco system when they want it, we can do that. That would give three options they can use now where they only had two. It also allows us to look at how much capacity we keep month by month as opposed to how much we release and get more money to help offset

the cost of every other customer. Ms. Brown stated that she ran the proposed rate with the pipeline adjustment charge on a customer by customer basis and could share that with the Commissioners to help them understand how these customers may view it. Ms. Brown stated that their real test should be which fuel is more expensive to use. Mr. Barnett stated that we have not explained to these customers in the past that there is a cost for them to have this option because we have to maintain the system and capacity within the Transco pipeline. Ms. Brown stated that the pipeline demand charges would first be assigned the amount for the firm and interruptible industrial customers based on last winter months through put. Then when developed into an MDQ rate, they are going to develop a summer and winter rate. That rate would be applied at the end of the month to the industrial MDQ's for that month; that would be subtracted from the actual bills for pipeline demand charges. The amount that is left would be divided among the residential and commercial customers. That gives 100% recovery; however, that means there are two options. Ms. Brown explained that one option would be to estimate the residential and commercial, for instance for January, and to go ahead and bill it and "true-up" the difference in February. They would not know the actual bill and the actual amount charged to the industrials until January 31. The other option would be to simply charge the residential and commercial for their January usage in February as a separate line item on the bill. She stated an opinion that that would be the cleanest, easiest way, and would mean you are basically fronting one month's working capital by having the recovery the following month with no over/under-recovery from that point. Chairman Hancock asked if all of the industrial customers would come in individually for an explanation before the rate increase went into effect. Mr. Lemon responded they would talk to them individually ahead of time; Mr. Barnett suggested a visit to each of them. Ms. Brown continued with an explanation of residential and commercial customer increases by stating that residential and commercial customers would see larger increases in summer because the through put is smaller in the summer. On a unit basis they would see smaller increases in winter and larger increases in the summer as a result of doing this type of methodology, primarily due to demand charge recovery. Mr. Barnett added that this would more realistically match our bills at the same time we are collecting from the customer. Ms. Brown referred to Exhibit 7 showing a proposed residential increase in total rates of \$793,784, or 6.93%. She added that this was calculated using the estimates for gas cost for the year. Commissioner Monaghan asked if the main thing driving this

was the pipeline charge; Ms. Brown responded that was 50% of it. This concluded Ms. Brown's report.

Manager Reeves stated that the recommendation was to defer the debt service until 2009, but that they needed to give Ms. Brown some indication of how they wanted rates designed. The Commissioners indicated their agreement. Manager Reeves recapped the presentation by noting no questions with regard to changes to electrical large power other than whether the Commissioners agreed with the methodology. He noted that the Commissioner had agreed in the past to change the methodology of water with regard to going to a volumetric rate. He stated that there was also a need for guidance with impact fees. Commissioner Monaghan stated that he would rather have them paid on construction of the house. The Commissioners agreed that the \$500 base impact fee would be the best starting point. As a wrap up to the meeting, Manager Reeves informed the Commissioners that Ms. Brown would begin designing rate tariffs for adoption at a public hearing on May 24, 2007, at 5:00 p.m. In preparation for the public hearing, advertisements would begin approximately three weeks in advance with two advertisements per week. In addition, it was decided the rates would become effective with July 1, 2007 consumption.

IV. Executive Session:

Commissioner Henry Watts made a motion to go into Executive Session to discuss contractual matters; Commissioner Monaghan seconded, and the motion was unanimously approved.

V. With no further business, the meeting was adjourned.

Approved: _____, 2007

Secretary