

COMMISSIONERS OF PUBLIC WORKS
Minutes of October 25, 2007

The regular meeting of the Board of Commissioners of Public Works was held on Thursday, October 25, 2007, at 10:00 a.m., in the Boardroom at 121 West Court Avenue.

In attendance:

Gene P. Hancock	Steve D. Reeves, Jr.	Vicki Knott	Stacia May
Michael G. Monaghan	Kenneth Barnett	Vickie Gorham	Richard Gentry
Henry O. Watts	Jeff Auman	Jeff Chapman	Carlos Cometto
	Jeff Meredith	Ron Lemon	Jay West
	Denise Ogletree	Curtis Burnett	Bill Patrick

- I. Chairman Watts called the meeting to order and Kenneth Barnett gave the invocation.
- II. Chairman Watts gave the statement of compliance with the notification provision of the Freedom of Information Act.
- III. A motion was made by Commissioner Monaghan and seconded by Commissioner Hancock to approve the minutes of the September 13, 2007 regular meeting, and the September 27, 2007 regular meeting as received; the motion was unanimously approved.
- IV. Financial Statement:

Commissioner Monaghan referred to the variances in sales and expenses and the likelihood of those being due to the price of gas and electricity, adding that we are still \$700,000 favorable in the budget. He commented on a discrepancy between billings and power purchases on the electrical side, and asked Mr. Meredith about the need for some kind of cost structure where it is adjusted like with gas. Mr. Meredith responded that was already being done through the PPAC. Ms. Ogletree added that with the PPAC, we are not adjusting the month after but there is a two-month lag. Basically, the fuel cost is driving the electric to be over budget. She stated that the reason there is a big difference this month is because it is passed through to the customers but we are not actually collecting it in the same month as the bill is paid. Commissioner Monaghan noted \$1,137,000 over budget shown this month. Ms. Ogletree responded that it was unexpected fuel costs when the budget was put together; some of it may also be timing because the budget was projected based on pre-year average, and if the usage is different than over the last three years, then it will show something else. Commissioner Monaghan asked if we are happy with the way we are adjusting.

Ms. Ogletree responded that we are adequately recovering the costs. Commissioner Monaghan referred to a special exhibit showing gas and asked if this was tracked in a similar manner as with gas. Ms. Ogletree stated that a PPAC is prepared every month and a spreadsheet is done. Mr. Meredith responded that it would be different than with gas; the way the spreadsheet is set up would have a different look than the gas. Commissioner Monaghan stated that he wanted to know whether we had over collected or under collected. Ms. Ogletree responded that if it is over or under, the PPAC is adjusted every month to collect. Commissioner Monaghan commented that if that is a phenomenon to be seen from now on, the Commissioners might want to have a better understanding of it. Commissioner Monaghan referred to page 16 showing total gas revenues for fiscal year-to-date and the previous pages where total gas revenue was \$27 million. He pointed out that page 16 showed \$21 million and page 3 showed \$27 million and he could not reconcile the numbers. Ms. Ogletree responded that page 3 also has other revenues included such as transportation cost recovery; page 16 is strictly gas cost recovery; the revenues associated with the gas cost recovery does not include any demand charges or transportation cost charged to the customers. Mr. Barnett added that page 16 is strictly the cost of gas, not the margin or demand charges; all of that is reflected in sales on page 3. Ms. Ogletree added that page 3 should be higher than page 16. Commissioner Monaghan asked if it should be higher by \$6 million. Ms. Ogletree responded that there are a few million dollars just in transportation costs. She stated that on page 16, you are measuring how much is being recovered against the actual cost of gas, and then take out all of the extras revenues that are not directly associated with the cost of gas. Manager Reeves asked Ms. Ogletree how difficult it would be to show on page 16 the other costs that would then equate to the number on page 3, and Ms. Ogletree responded that it could be done. Commissioner Monaghan noted that would be helpful because page 3 does not break it out. Mr. Lemon added that he and Denise go over the numbers monthly and they are accumulative for the year. With no further questions, the financial statement was accepted as information.

V. New Business:

A. Chairman Watts acknowledged a request to appear before the Board from Mr. Jay West with the Economic Alliance. Mr. West brought the Commissioners up to date on a recent trip to Japan on an \$800 million project. He noted a downside with neither the Governor nor the Secretary of Commerce in attendance but they still met with those companies. He added that they are competing with seven states but Greenwood is still the lead site for the \$800 million project that would go up off Emerald Road on Highway 246. He provided a PowerPoint presentation and report of new marketing

efforts, staff reorganization, and marketing expenses. Mr. West stated that a lot of money had been paid in the past to outsource marketing; now with John Lawry leaving, they will be bringing in a person to handle the web, graphics, etc. in-house for a cost savings of \$59,000 per year. With new technology in place, they will spend about \$1,200 per year to do everything in-house rather than printing materials. Information is now sent out electronically through a weekly newsletter to site consultants, investors, companies, and others. He shared information on two industrial park sites identified adding that one located near Maxwell Springs on Highway 225 is adjacent to the city limit. He stated that about 2,000 – 3,000 acres had been locked up there with options. He pointed out the close proximity to Springfield School and the CPW Operations Center and the current traffic issues there. Mr. West reported that there would be a stated meeting held on the last Wednesday of every month at 3:00 p.m. to deal with issues. Commissioner Monaghan expressed to Mr. West that the monthly meetings are encouraging. Mr. West continued that the first issue they will address with future planning will be the traffic issue at this site. He reported on a meeting held the previous evening with District 50 Superintendent, Darrell Johnson, who has agreed to back them with the traffic issue with DOT and added that the hospital is also willing to back them. He suggested to the Commissioners and staff that they might drop some hints as well during the lunch meeting with the local delegation. He stated that this is a prime light industrial site adding that it is considered light since it does not have rail. He continued that one big issue is if this can eventually become a CPW service area so they would be served by City fire which would drop the fire rates; and they would get the lowest electric rates in South Carolina. He reported that the site in the Emerald Road area is under consideration by the \$800 million company mentioned earlier, and pointed out CPW gas and water lines already there coming down the rail. He noted other pieces of property under contract and various commitments there. Commissioner Monaghan asked about a proposed line that was to run by Wilson Creek. Manager Reeves responded that they did not look at the actual route for an electrical line; however, the annexation route would get close. Mr. West pointed out the location of Wilson Creek on the map. Mr. West continued that the cost savings of \$59,000 per year gives them more flexibility to manage cash flow easier along with several other significant changes made over the past two months with how business is done, such as staff reorganization and the elimination of a position and the in-house marketing, for an overall cost reduction of \$127,000. Mr. West thanked the Board for being so gracious over the years to help during difficult times, adding that they will not need to do that after this year. Mr. West referred to a request outlined in a letter to the Board from the Partnership. He stated that they were in a lean part of the year

and asked for consideration of an additional one-time grant of \$50,000 to put them in a better position to manage cash flow from now on. He reminded the Commissioners of times in the past when they had allowed the Partnership to take some of the installment for the next year and put it into the current year. He pointed out that as a result of that, they are automatically at a deficit for the next year. He stated that with the adjustments that had already been made and new processes in place, this would put them where they need to be. Commissioner Monaghan noted that the Partnership had created a Finance Oversight Committee consisting of Bob Haynie, Robbie Templeton, and himself that would meet monthly. They will be given a complete check register and credit card statement to go over every single expenditure made by the Partnership. He added that CPW expects to continue in very close coordination with the Partnership on crucial annexation issues.

Commissioner Monaghan made a motion to provide the additional funding in the amount of \$50,000 to the Partnership for 2007 and Commissioner Hancock seconded. Chairman Watts asked if an immediate decision was necessary, and Mr. West indicated the sooner the better. The motion was approved by a vote of two to one with Chairman Watts voting "no". Chairman Watts stated that he was not opposed to the request but needed more time to think about it. Commissioner Hancock commented that both he and Commissioner Monaghan are on the Partnership Board and had the opportunity to know what was going on more so than Chairman Watts and they had tried to keep him apprised of everything. He pointed out that they are looking at this as a win/win situation with upcoming projects where CPW would get some return back. He noted that it only takes one good industry like the \$800 million one to get the electrical back and then some. Mr. West noted projections of \$20,000 per month usage with SPF going to \$60,000; CPW's revenue went from \$240,000 per year to \$720,000 per year. Chairman Watts stated his concern with wanting to talk with staff first to determine what kind of return we would get on our investment. Commissioner Monaghan noted that Chairman Watts had a good point that in the future, it would be best to have a couple of weeks notice on something of this nature. Mr. West responded that his point is that this should not happen again in the future. Commissioner Hancock told Mr. West that we are taking what he said about this being one time very seriously.

- B. Chairman Watts presented a recommendation from staff for a grant application to improve water supply in and around the New Haven Apartment complex at a projected cost of \$45,397.28. Manager Reeves requested authorization to sign the grant application. Mr. Chapman noted that with the way the grant was written up, this project would be done in-

house so that our contribution would be in-kind labor to match against the grant. Manager Reeves added that the materials, etc. would still be bid out.

A motion was made by Commissioner Hancock to authorize the grant application; the motion was seconded by Commissioner Monaghan, and unanimously approved.

- C. Chairman Watts presented a recommendation from staff to adopt a policy pertaining to the number of times CPW would provide samples to contractors for the presence of bacteria in newly constructed water lines. Mr. Chapman explained that the way it works now, contractors have to have two sets of good samples within 24 hours to place a line in operation. We provide that sampling at no cost and have no problem with doing that. He continued that the problem has arisen over the last three years with about thirty incidents, about ten per year, where a contractor due to their scheduling will call us out and we do the sampling and it is ready to go, but for some reason they have not applied to DHEC to place it into operation. Then they come back and DHEC says that the samples are no good because they are past thirty days old and we are called back out. They sample and it comes back bad and they have to disinfect causing us to waste our time and our resources. Mr. Chapman added that it would be a minimal fee but would be something to make the contractor think about the timing of the request for samples and submittal to DHEC. Commissioner Monaghan inquired as to whether a public hearing was necessary; the response was that it would not be.

A motion was made by Commissioner Monaghan to approve a policy pertaining to water sampling, and the motion was seconded by Commissioner Hancock. Chairman Watts stated that the new policy would provide for two samples at no charge; any additional samples would be \$45 for the first sample and \$10 for each additional sample. The motion was unanimously approved.

- D. Chairman Watts presented a recommendation from staff to change water tap fees with an effective date of November 1, 2007. He noted the current charge for inside the city of \$500 for 5/8-in x 3/4-in. water meter sizes, a 1-in. and 1 1/2-in tap, and that the recommendation is to make that \$670. The charge for outside the city is currently \$600 and the recommendation is to make that \$700. Commissioner Monaghan asked why the road bore was less expensive on the same side of the street tap for 1 1/2-in. meters. Mr. Chapman responded that it was a typo because the road bore should be more expensive. He noted that the proposal recommends one fee; they do not want two different fees for each side of the street. He explained that the two were averaged because

there is no way to determine how many they will get on the same side. Commissioner Monaghan inquired about the need for a public hearing. Manager Reeves responded that fees do not require a public hearing. Mr. Patrick added that it is whatever the policy has been in the past, whether it is written or a policy by practice. He noted that the practice over the last number of years had been to have public hearings with rate increases that were fairly widespread. He stated that he was confident that it is legal and the Board has the authority to make the change without a public hearing. It is just a matter of what the Commissioners want their policy and practice to be. Manager Reeves noted that adjustments had been made to miscellaneous charges from time to time in the past without a public hearing. Mr. Chapman continued that they did not make adjustments to adequately cover the cost when they went to new meters. He stated that it was proposed several years ago to do the 1 ½-in. meters at cost but that was never enacted. These costs reflect the actual costs that CPW incurs. We have been operating so that when we make a tap, we are providing the tap and eating some of that cost ourselves. Chairman Watts stated that rather than going through each one individually, the main objective is to recover our costs.

A motion was made by Commissioner Monaghan and seconded by Commissioner Hancock to incorporate the tap fee charges as recommended. Commissioner Hancock stated that Metro is combining residential 5/8-in. and 1-in. together and CPW should discuss doing that as well. He noted that with putting in a 1-in. meter they are just recovering cost and not making any money. After discussion, the motion was unanimously approved.

Commissioner Monaghan stated that since they were already on the subject, they should go ahead and talk about it. Commissioner Hancock commented that he had asked Richard Coleman to join them for this discussion; Manager Reeves stated that he had talked with Richard earlier and he had another engagement. Commissioner Monaghan stated that at the Metro meeting held the previous day, they determined that there are 13,000 households on the metropolitan sewer system. Of those 13,000 at a base rate of \$8 based on a single-family residential unit, there are around 600 that have 1-in. meters and are paying three times the amount that the 5/8-in. meter customer pays. They are still a single-family household. He stated that the Metro Board passed a motion to make a new customer classification with one as single-family residential at one REU and to charge a base fee of \$8.64 for any single-family resident whether they have a 5/8-in. or 1-in., and they would like to do the same for water. He noted that there would be a second class for multi-family. He asked about the base rate for water, and Mr. Chapman responded that it is about \$10 more when you go from a ¾-in. up to a 1-in. Commissioner

Monaghan asked about the price for a single-family residential 5/8-in. meter. Manager Reeves responded that the minimum charge had gone to \$7.84. Commissioner Monaghan noted that it is about the same as the Metro charge; noting that it is more when you go to 1-in. He expressed a desire for the single family residential class be billed at the same rate whether it is a 5/8-in. or a 1-in. meter that goes into the house, not for irrigation. Mr. Chapman referred to a letter that went out and calls coming in; he stated that so far, it is about a 50/50 split with customers who want to keep the 1-in. meter. There are those out there who do have their irrigation system on the 1-in. meter and there is a capacity issue in that we obligate more capacity to that 1-in. meter than with a 3/4-in. Commissioner Monaghan expressed the desire for billing to be less complex, adding that Metro's billing is the same as CPW's. Manager Reeves responded that it is a little different than Metro given that CPW is based on capacity. He provided a scenario where if you are a residence, you would have no reason not to put in a 1-in. meter because it is the same cost as a 5/8-in., you would just go ahead and take the extra capacity at the same cost because there is no additional cost for the extra capacity. Commissioner Monaghan commented that you would not really need that unless you had a sprinkler system. Manager Reeves explained that the difference is that we have offered the opportunity to all of these customers with the 1-in. to change to a 5/8-in. at no cost, and they are choosing based on their own personal needs. They recognize that they will pay a higher premium for the 1-in. meter over the 5/8-in., and they are accepting that based on the letter that went out. Commissioner Monaghan inquired about whether there would be a billing problem with Metro. Manager Reeves responded that he and Richard had discussed how a special rate code could be done just for that application. Commissioner Monaghan pointed out that it is a little different between sewer and water because instead of paying \$8, they are paying \$20 plus and it is going into the ground, whereas, with commercial and multi-family there is a strength differential. Mr. Chapman stated that he would support what they are doing with Metro because it would make sense. He stated that they are finding that in response to the letters, each customer that calls back with a 1-in. meter is not putting any more strain on the sewer system because they have it either for irrigation or for horses and ran additional water lines on their side. It is a capacity issue on us. Commissioner Monaghan stated that he was convinced as long as Ms. Gorham did not have any problems with the billing. Manager Reeves responded that during the conversation with Richard, they discussed how it will be very clear with the majority that are either a single family unit or a multi-family unit so that we can separate those. However, there would be some instances where Metro would need to make the call. He provided an example of a single family home with a garage apartment behind the house and whether that would now be multi-family or

single family. He stated that in his opinion it would probably be single family, but that is a Metro billing question they would need to answer and not us. He stated that he would meet with Vickie Gorham to identify those situations. Commissioner Hancock stated that his residence has two single families living side by side sharing one wall, but with two separate meters. Commissioner Hancock referred to a 2,300 cubic feet cap on the water as far as it goes to sewer; if they irrigate on top of that, adding that the 2,300 is too high. He stated that there are customers out there who actually use that much water per month in a house, so they need to find out who those customers are so they can put that cap on. Commissioner Monaghan noted that the average is 800 cubic feet which is about 6,000 gallons. They don't stop charging for sewer until you use 17,000 gallons. He added that they have asked to look into making it more reasonable. Mr. Chapman stated his agreement because most of the time if something is extremely high, it is a leak on their side that is causing it; whereas, if they are using our commodity that leak does not put any strain on Metro unless it is going down the drain, in which case it is usually going down the drain as clean water and that is not putting a strain on their system either. Commissioner Hancock stated that they did not want to cut the bills of those people who use that much each month. If that number should be 1,800, then that is what they want, but if it needs to be 1,900, that is what they want. They do not want to cut anybody's rates because they are hitting that cap. Manager Reeves noted that the cap in Newberry sixteen years ago was 1,600 cubic feet because that is basically double the average residential usage.

- E. Chairman Watts asked Ms. Ogletree to explain a request to consider using a collection agency for past due accounts. Ms. Ogletree explained that she had reviewed accounts receivables, and looked at some of the bad debt, and accounts of people that had their final bill and had moved off the system leaving past due accounts, then come back to the system and want service. She stated that they had been counting on submitting those to the Department of Revenue through Debt Set-Off to recover some of these funds, but after looking at how much we are actually collecting through Debt Set-Off, found only \$78,000 was collected through that program last year out of over \$1 million sent in for a little over 3,000 accounts. She noted that we are now competing with hospitals, state universities, and any other state agencies for those funds, so whoever gets their accounts to the DOR first are the ones that collect first. We are not given a prorated portion; it is whoever gets their accounts there first. She continued that on top of that the DOR is charging the customers \$25; Debt Set-Off is charging \$25; and CPW is charging \$25, so the customers are getting charged an additional \$75 to have their income tax refund set-off and to collect whatever small amount we are collecting.

Chairman Watts asked if CPW would only get \$25 if their refund is \$100. Mr. Patrick stated that if the bill is \$100, the customer will wind up paying \$175. Ms. Ogletree stated that if there is only \$100 available, then we would only get \$25. Mr. Patrick added that if there is only \$100 available in the refund due, then that is correct; the fees would come first. Ms. Gorham noted a lot more had been collected in the past through Set-Off Debt but as time has progressed, different organizations like the hospitals are also doing the same so we are collecting a lot less now than we once did. Ms. Ogletree pointed out that there is not a mechanism in the system to show how effective we are with collecting on accounts where people have moved back into the system. She noted that some is collected, but in looking at the actual amount that is written off every year, we have already written off close to \$700,000 this year in bad debt and may never be collected. She stated that a collection agency would have the staff and expertise to monitor accounts and credit histories. She noted that at this point, we are not reporting to any credit agencies, so there is not a downside for a customer who moves off the system and never pays their bill. It is not showing up on their credit history. Commissioner Hancock noted problems in the past with collections agencies before and a bad public image with some of them. He added that there are reputable firms out there and it might be different now than it was in years back. Commissioner Monaghan expressed a desire to first see the scheme; for instance, when does someone get referred, at what level do they get referred. The agency we employ would have to be of a certain caliber and quality. He continued that this could be on the right track, but they would need a more detailed proposal. Ms. Ogletree responded that at this point, the idea is to get a feel for whether this is something we even want to pursue. Commissioner Monaghan stated that we do not want to be chasing everybody down and would need to be very careful. Mr. Patrick pointed out that now there is the Fair Credit Collection Act that has standards that the reputable firms have to adhere to, as opposed to our past experience with collection agencies. Commissioner Monaghan referred to the past due accounts owing over \$5,000 shown on page 21 of the financial statements and discussions that had gone on for quite a while. He noted surprise to see that a letter was just sent out on October 22 since they had been talking to these guys for two or three months, and asked why the letters were not sent out sooner. Ms. Ogletree responded that the attorney had apologized for that the following week when she talked with him. Commissioner Monaghan asked who it was; Manager Reeves responded that it was a lawyer here in town. Commissioner Monaghan asked why our own lawyer could not do it, adding that we pay our lawyer a fee every month. Mr. Patrick responded that this guy is set up to do this and charges on a contingency basis and handles collections for a lot of folks. He added that their firm could do it. Commissioner Monaghan

stated they we could pay Mr. Patrick's firm and noted there were only five letters in this group. Mr. Patrick responded that would be okay. Commissioner Hancock referred to a letter to Larkins Electric Service and pointed out that he also owns Judd's Washeterias. Chairman Watts asked what the attorney does in addition to sending the letters. Ms. Ogletree responded that if they do not respond to the letters, he can pursue it through the legal system. Mr. Patrick added that normally, he does them for the hospital and some other folks, and if you are going to do it on any scale, you need to be set up to do it on a system. He would typically write a letter and then file a lawsuit, and in most cases probably would get a default judgment. The judgment would stay on the records for ten years and if they want to go borrow money or buy a house and get a title approved, then the judgment comes into play. Mr. Patrick continued that they could certainly write the letters. Commissioner Monaghan stated that he did not know what they were buying and asked Mr. Patrick if this was something his firm could handle. Mr. Patrick stated that the arrangement for all these years and what had been done in the past is that his firm provides the typical retainer type services and doing the letters would be fine to come within that retainer; if you go to litigation, then litigation is not in the retainer. He noted that he had no objection to doing the letter, but if they are to be suing the people, then that would be something that would typically be paid for separately. Mr. Patrick continued that the other attorney who does this only charges when he collects; Ms. Gorham confirmed that was correct. Ms. Gorham stated that right now, we are only looking at those over \$5,000 which were five at this time; if others were to be turned over, it would be more like the collection agencies Denise had referred to. Ms. Ogletree pointed out that to turn over 3,000 accounts, we would need to go out and get quotes from outside firms. Commissioner Monaghan asked if a bill is not sent to these past due accounts every month, and noted one shown that had not been billed since October 9, 2006. Mr. Patrick responded that there is not a legal implication by not sending a bill but there could be a psychological implication to the customer. Ms. Gorham stated that so far as sending a regular bill, they did a study some time ago and it was decided at that time, if you have sent a customer a bill for six months, then you are probably wasting postage sending one every month. Manager Reeves stated that the cost to send a bill is somewhere in the \$1.20 range; if you billed twelve times a month, you have only spent \$20 or less per account. With a statute of limitations of three years, you could bill them every month for three years through the statute of limitations and still not have a lot of money invested, particularly on accounts over \$1,000. Chairman Watts noted that there are over 3,000 past due accounts. Commissioner Monaghan asked about sending something that simply states that they are past due and owe us this much money instead of a big, fancy bill. He noted that we should

not just stop sending them a bill. Chairman Watts pointed out that there needs to be some kind of limits when we are dealing with 3,000 plus people, and asked about the feasibility of sending something out to all 3,000 people. Manager Reeves responded that it would get to be fairly expensive with that many people. He suggested that in looking at the 3,000, you would determine how many are over \$1,000; put in another break at around \$2,500; and for those that are over \$5,000. The Commissioners were in agreement for Ms. Ogletree to develop a more detailed scheme for using an outside collection agency to be presented to the Board for consideration.

- F. Chairman Watts asked Ms. Ogletree to highlight the recommendations made by staff regarding the over collection of gas cost. Ms. Ogletree stated that this was discussed with Ron Lemon and together they came up with three recommendations for gas over recovery in the amount of \$568,053.14. The first recommendation was to create a reserve fund to offset any projected shortfalls in gas revenues because of the loss of revenues due to closures and the reduction of lines by some industrial customers. Mr. Lemon added that they are not getting the same through-put or sales with industrial customers as had historically been seen due to a number of issues and some of those folks are expected to go to the landfill gas. He stated that they are seeing conservation across the system within both residential and commercial customers. Ms. Ogletree continued that the second recommendation would be to credit the residential and commercial customers \$10 per meter in the months of December and January so they would effectively receive a \$20 credit over those two months. She continued that the third recommendation is to subsidize the PGC in December and January by crediting the cost of gas in those two months, or just do it one time for \$500,000. She stated that their first preference would be to create a reserve. Commissioner Monaghan noted there is a problem with the fact that we have over recovered from the customers; they have really spent more than they should have spent and asked if there was a way to fine tune the system. Commissioner Hancock stated that you send the money back to the ones who paid it in. Commissioner Monaghan asked if there was some way to get a little closer. Mr. Lemon explained that after the review, they determined the lion's share of the over recovery came during one billing cycle and was weather driven. They estimated that they would recover a minimal amount in March, then March turned out to be very cold and they quadrupled what they were expecting to over recover. It would not have been nearly as significant had it not been for that month. He continued that with the way the billing system is set up it basically takes 60 days to go through the entire system and know what is over or under recovered on gas costs. He stated that he and Denise look at it every month; it is usage driven and the usage is going to be driven

by the weather. He noted that the weather has affected both the cost and the usage. Commissioner Monaghan stated that his first inclination is to say that if by forward pricing we are not at market, maybe we should use some of this to bring customers closer to market in that particular month. He added that he was not sure how much impact there would be on the bills by the time it is spread over the whole customer base. He then recalled a time in the past when \$1.5 million was returned that was not there to return. Mr. Lemon pointed out that option 2 gives it back to the customers based on a meter and not based on usage; the problem comes about when you make a rebate based on usage because you are projecting a usage and if you use more than what you projected, all of a sudden it is gone and now you have refunded more than you should. He continued that if the Board's decision was to give it back, it would be done "per meter". For example, a bill comes out in January or December and they are billed \$290, they would get a \$10 credit. Commissioner Monaghan continued that another thought was to use it to fund some "puts" and "calls" to see if we can do a better job on that. Mr. Lemon noted that would be the reserve fund option. Commissioner Monaghan stated that if we are absolutely sure that is a good number, the per meter thing would be more appropriate. Commissioner Hancock stated that any way they choose he would lose on it because of being 100% load factor with gas; therefore, the proposition of \$10 per month would not cover his but would cover 99% of the customers. Mr. Lemon stated that they are assuming a rough number of 18,000 residential and commercial meters, so at \$10 a meter you are giving back \$180,000; in two months you would give back \$360,000 and could decide whether there would be a third month. He stated that when they looked at the options, they decided it was better to under-refund the over-collection rather than the other way where we are giving back something and all of a sudden it is not there. Commissioner Monaghan referred to 3B. Mr. Lemon responded that would be when they are developing the PGC and estimating a cost of gas at perhaps \$1.2 million, and are only estimating the cost to be \$1 million and put that in there. Then when they develop the PGC and average those numbers, the average will be lower. The problem occurs because now you have created an average or a number that is using their best technical analysis to develop a number; now you have automatically put into that number a factor that could come back and cause additional issues later. Commissioner Hancock stated that since most of the money came from heating customers, that makes the average on strictly refund back more powerful. Mr. Lemon commented that the over/under recovery that generated this came from the diversity of how they average during the winter months. They had a factor in there and once again, weather came back and bit them so they now adjusted the factor, and weather came back and helped more than they thought it was going to. All of this occurred

in the November through April timeframe; they did not discover the significance of the over-recovery until May because it is 60 days from March when they are there. They looked at it and continued to add a factor to adjust the bills, but again, the issues were created by the people who used a significant amount of gas during the winter months and did not use it in the warmer months. Mr. Lemon noted a ten-to-one ratio, winter to summer, on usage. He stated that while it was created by the cold, it was paid for by the 100% load factor folks. Commissioner Monaghan asked Mr. Lemon to explain their reasons for believing that the first recommendation is the better one. Mr. Lemon stated that it was because last year there was a shortfall in the budget due to operating cost, not selling as much as projected. He stated that he had already projected how much gas they will sell for next year. Conservation, situations like the brickyard, or any number of different issues can adjust that, somebody switches to an electric boiler, so we are making the assumption there will be an adjustment due to lack of sales or reduction of sales. He noted that they are doing everything they can through the incentive programs and working with Jay to get new folks in here, but right now we are expecting there will be some type of shortfall. Mr. Patrick stated that if they did the reserve fund and referred to the brick yard, the reserve fund would be just available to offset a shortfall that comes from R & C customers, or from all gas customers. If you do it for all, it appears that you are giving credit to customers that did not generate it. Mr. Lemon responded that they base their budget on margins and those margins bake in their cost; they are spreading those costs across the year. They are going to use so many decatherms of gas during the year and are going to recover those costs through the margins. Mr. Patrick asked if they did the reserve fund, would only the R & C customers get the benefit of the reserve fund, or would all customers benefit from the reserve fund. Mr. Lemon responded that it is a little difficult to say because they do not know where the shortfall is going to come. If there is a shortfall, regardless of where it is created in sales, it will bake back into rates for next year. Those rates are going to be adjusted up and the R & C customers carry the weight. Commissioner Monaghan asked if there was any way to earmark the effect only for residential customers. Mr. Patrick noted that the PGC just applies to the R & C customers, so if you use it as a sort of credit against the PGC over some period of time and that would then flow over some winter period of time, that would then flow back to the same customer class that paid it. The Commissioners and Mr. Lemon were in agreement that this is the theory of the scheme done now. Mr. Lemon added that they know that during a particular month they will have about a \$500,000 shortfall on what they bill compared to what they use. Commissioner Monaghan provided a scenario where a PGC is created and you come up with a loss for that month. He suggested using the over-

recovery to level that loss so that you are starting out fresh. Mr. Lemon stated that the problem comes about when they are estimating based off historicals what would be used for the month of December for instance. They are going to look back at what was used for a five-year period of time and project that when they determine the PGC for estimating the cost of gas. If gas daily goes up, there are any number of different factors in there that can affect that. Commissioner Monaghan referred to page 17 showing a shortfall in January of 2006. He asked if we could use this reserve to offset the negative figure should that happen this coming January. Manager Reeves clarified that it would be similar to the suggestion under option 1 with the reserve fund, but would be used to offset any negative numbers after it occurs. Commissioner Hancock added that they are alright as long as they do not keep the money. Mr. Lemon stated that they would establish a reserve fund to be applied toward any under-collections. Ms. Ogletree asked how long they should do this. Commissioner Monaghan responded until they run out of money. If you under-collect, just even it out with the reserve until the reserve is gone.

A motion was made by Commissioner Monaghan to establish a reserve fund that would be used to offset any negative numbers on the PGC; the motion was seconded by Commissioner Hancock, and unanimously approved.

- G. A motion was made by Commissioner Monaghan to accept the bid proposal from Elliott, Davis & Company to perform the financial audit for 2007 at a cost of \$23,000; 2008 at a cost of \$23,600; and 2009 at a cost of \$24,400. The motion was seconded by Commissioner Hancock, and unanimously approved.
- H. A motion was made by Commissioner Monaghan to accept the low bid from Dell in the amount of \$20,472.64 for 21 replacement workstations. The motion was seconded by Commissioner Hancock, and unanimously approved.
- I. A motion was made by Commissioner Monaghan to reject all bids for line stopper fittings that failed to meet the specifications; the motion was seconded by Commissioner Hancock, and unanimously approved.
- J. Mr. Jeff Chapman explained that the low bid for concrete meter vaults came from a distributor who gives a 1% discount if paid within ten days. He recommended dealing directly with the manufacturer, MST Concrete Products, rather than the distributor so as not to incur any scheduling conflicts. He noted that MST had bid the same amount minus the 1% discount. Commissioner Monaghan informed Mr. Chapman of the usual procedure for a blanket purchase order for a year, and suggested taking care

of that through purchasing. Mr. Chapman responded that he would get with Mr. Burnett to come up with a blanket purchase order.

A motion was made by Commissioner Monaghan to approve the bid from MST Concrete Products as recommended to purchase three concrete vaults at a cost of \$36,915; the motion was seconded by Commissioner Hancock, and unanimously approved.

- K. Commissioner Hancock made a motion to approve the low bid as recommend from Line Equipment Sales in the amount of \$121,351 for breaker upgrades in substations 1, 3, 4 and 6; the motion was seconded by Commissioner Monaghan, and unanimously approved.

VI. Other Business:

1. Manager Reeves noted that there was nothing new with annexation at this time.
2. Manager Reeves informed the Commissioners that the Governor had issued drought restrictions across the state. He stated that based on our drought response plan, we are not yet in a position to mandate any type of conservation measures, or to even to request voluntary restrictions. He asked the Commissioners to keep in mind that if significant rains were not received within the next few weeks, we may be in a position to start asking for voluntary or mandatory restrictions. He reported that the lake is down about two feet but would normally be drawn down by that amount at this time of year anyway.
3. Manager Reeves noted that the memorandum to the Commissioners stated that the actual purchase of the relays (Item K.) was withdrawn from the bids as allowed by the specifications. He noted a problem now with having to buy the relays and that it was suggested in his memorandum and also to Mr. Meredith that those be bid. He stated that once Mr. Meredith looked at the potential of bidding, only one or two manufacturers can provide them and we already have the price. Manager Reeves asked for direction with whether to go forward with a more formal bid process, even though we already know the price we are going to get, or to get approval for the purchase now. Mr. Meredith provided a total price of \$72,476.44 for 17 relays. He noted that the price comes from an ABB relay that only goes through one distributor, Wesco. Therefore, the only two places to obtain prices are Wesco or directly from ABB. Mr. Meredith recalled a similar project last year with these same relays when only two quotes were received, one from Wesco and one from ABB. He

noted that the price received last year was higher than the price quoted for this year, and would be an overall savings of \$21,000.

A motion was made by Commissioner Monaghan to approve the purchase of relays as recommended by Mr. Meredith; the motion was seconded by Commissioner Hancock, and unanimously approved.

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

Approved: _____, 2007

Secretary