

**COMMISSIONERS OF PUBLIC WORKS**  
**Minutes of October 9, 2008**

A regular meeting of the Board of Commissioners of Public Works was held on Thursday, October 9, 2008, at 10:00 a.m., in the Boardroom at 121 West Court Avenue.

**In attendance:**

Gene P. Hancock	Steve Reeves	Jeff Elliott	Lee Roper
Michael G. Monaghan	Jeff Meredith	Denise Ogletree	Jay West
Henry O. Watts	Jeff Chapman	Vicki Knott	
	Jeff Auman	Curtis Burnett	
	Jerry Smith	Vickie Gorham	
	Richard Gentry		

- I. Chairman Monaghan called the meeting to order. The invocation was given by Commissioner Hancock.
- II. Chairman Monaghan gave the statement of compliance with the notification provision of the Freedom of Information Act.
- III. New Business:
  - A. Manager Reeves presented a recommendation for the sale of propane plant equipment from among the bids submitted. He stated that the highest bid came from LPG Ventures, Inc. at \$400,610. Manager Reeves pointed out that one bidder had submitted two alternative bids, one of which was for \$401,010.19 and conditioned upon an extension of time for removal of the tanks, and also conditioned on them wanting to become the high bid with this bid if they were not the high bid. Manager Reeves stated that he concurred with Mr. Roper that it would probably be illegal since it would be akin to saying that you would bid on a low bid basis and bid one dollar lower than the next guy. He continued that the second alternative bid in the amount of \$431,000 to include the property was not recommended either adding that was not a part of the original sale. Manager Reeves recommended the high bid from LPG Ventures, Inc. in the amount of \$400,610.

A motion to accept the bid as recommended was made by Commissioner Hancock, seconded by Commissioner Watts, and unanimously approved.
  - B. Manager Reeves informed the Commissioners that Mr. Smith was about to provide a great deal of information on a natural gas purchasing program structure and a plan recommendation. He suggested that Mr.

Smith go through it today and the Commissioner could then either discuss it in more detail after the meeting, or take the information provided with them to digest and then discuss it at the next meeting. Mr. Smith provided handouts and explained that the presentation consisted of two parts. The first part sets up a framework or structure for market perspective on gas forward buying; the second part consists of recommendations for the coming winter. He explained a set of foundations that are market perspective or guidelines to provide structure for administration; a set of analytical and statistical tools that provide market structure; and a set of procedures for staying on top of things. Mr. Smith pointed out that fundamental and technical analyses of markets are among the foundations to be used, and would still include some of the things used in the past such as looking at supply/demand balance, weather, and technical resistance/support levels. He stated that they are expanding to include statistical perspectives and natural gas cost comparisons with competing fuels like crude oil and coal. Mr. Smith stated that a set of guidelines were included to ensure compliance with CPW policy on forward buying of gas. He stated that a variety of trading instruments would be used depending upon objectives, including futures, options, and option collars. Mr. Smith referred to three guidelines with the first being seasonal, and proposed that at least 50% of winter months be purchased by October 15, mainly because prices usually increase following October 15 as winter approaches. He reported that 81% – 82% had currently been purchased for December and January, and 63% for February. Mr. Smith continued that the volumetric guideline would state that you never have less than 30% covered for the spot month, 20% for the second month out, and 10% for the third month out so as not to be subject to a market spike. Mr. Smith stated a preference for using the 12-month forward strip as the primary tool in relation to the three-year average because it puts things in perspective time wise. He referred to a chart showing the three-year average of the spot price for natural gas; one and two-standard deviations above the three-year average; and one and two-standard deviations below average. He stated that the 12-month forward strip provides a perspective on where the forward prices look in relation to the three-year average and standard deviations. Typically, you would not expect to spend a great deal of time either above or below the second standard deviation. Mr. Smith explained how the information is then used basically to set up a forward buying matrix. He pointed out that you would begin to start buying as you get below the three-year average, at three months forward and 25% of the volume. As prices come down, you would buy farther forward and more volume until you would see the second standard deviation, and then would be buying twelve months forward up to 100%.

Chairman Monaghan asked if that meant they should not have bought in May, June, or July. Mr. Smith responded that they would not have bought had they looked at this tool in May, June, or July. At the request of Chairman Monaghan, Mr. Smith clarified the forward buying matrix by explaining that it is basically a matrix showing that the farther the 12-month strip is above the three-year average, the less likely you are to benefit from buying; and likewise, the farther below, the more likely you are to benefit. Chairman Monaghan inquired about the relative significance of buying a put or a collar. Mr. Smith provided an example from back in May or June when a put would have been more attractive because of the price excursion above the second standard deviation, whereas buying a put would look less attractive as prices go down further. He stated that we would have been better off buying a put in May and June because prices were elevated. Chairman Monaghan asked about the benefit of calls/collars versus puts. Mr. Smith responded that in looking ahead to the winter months when 80% of December, January, and February are covered, with the remaining 20% he would recommend putting a collar on; you would sell a put and buy a call, then that collar would give you coverage of about \$7.50 which is still well below the rest of ownership and would only come into play if prices got above \$7.50. We are not committing but it would give some downside protection and finish off the last piece of open position. Mr. Smith noted that the 12-month strip gives a good perspective for puts and calls. He then moved on to fundamental/technical tools noting they would continue to monitor market conditions including basis because they have to buy basis each month, as well as monitoring the btu-adjusted prices on an ongoing basis. Mr. Smith referred to spot month for natural gas delivered cost and the effect of Hurricanes Katrina and Rita. He pointed out that the spot month spiked up during that period but the 12-month strip did not follow, adding that the perception was that the damage from those hurricanes would be short lived. Earlier this year, the spot and the 12-month strip were pretty much hand-in-hand. Mr. Smith provided another perspective with the price of delivered coal; as gas prices approached the coal price, the price of gas becomes a ceiling for coal so that if you are operating a coal plant and are burning \$7 coal, then you can buy \$7 gas. Mr. Smith referred to a chart showing the spread between natural gas less the delivered cost of coal, and pointed out three points where the spread between the two had come down to be more or less where we are now. Mr. Smith referred to procedures and recommended evaluating the status of the forward months to check against the minimums and winter coverage and then if needed, send an e-mail to the Manager and Assistant Manager requesting some action at the beginning of each month following

the expiration of that months futures contract. Otherwise, at any time when they saw an opportunity, they would make such notification and request action. Chairman Monaghan complimented Mr. Smith on the presentation, and then expressed an interest in seeing a study of the put and price of gas if we hedge simultaneously over a period of time. He suggested that after seeing the results of such a study, they might then consider simultaneously hedging when pricing gas. Manager Reeves responded that Mr. Barnett had started that study some months back and found that there was not enough history yet. Mr. Smith added that they had the recent history for this year and he would have to go back further and piece some of it together. Manager Reeves added that Mr. Smith's new chart shows that because it was above the second standard deviation, at that point in time he would have recommended buying a put and had we done that, we certainly would have been better off. Chairman Monaghan noted that according to the news accounts, higher heating costs are being predicted for the winter. Mr. Smith responded that a forecast had also come out saying that the northeast would experience more snow and colder temperatures. Commissioner Hancock noted that according to Piedmont Natural Gas, natural gas should cost less than last winter. Mr. Smith added that it depends on who you ask. Chairman Monaghan stated that he would like to review the report in more detail with Mr. Smith at some future time; the other Commissioners agreed they also needed more time. Manager Reeves stated that their questions could be addressed at the next meeting. Mr. Smith presented a recommendation for the purchase of winter gas as requested by the Commissioners. He referred to the national weather forecast for December through February showing that the midwest would be above normal and the northeast slightly above normal. He stated that based on his experience with weather forecasts, they really become speculative beyond two weeks forward and he had not yet found anyone who could predict seasonal weather with any kind of accuracy. Mr. Smith stated that there are as many bearish factors as you could have with the current status. He continued that November gas is currently sitting at a key support level of \$6.83, which are the lowest prices since before Hurricanes Katrina and Rita in the summer of 2005; 12-month strip is approaching two standard deviations below the three-year average; the economy is weak with no strengthening in sight; gas production in 2009 is expected to increase by 7% year over year; gas demand is expected to increase 2.5% year over year so that production is exceeding demand; crude oil prices remain elevated at \$90/barrel; and the weather outlook is moderate based on the graphic provided showing there is not an overwhelming indication the winter will be terribly cold. He stated that the outlook for seasonal low in

gas tends to occur in August or September or even January or February; if there is a buying opportunity on a seasonal basis, it may be right around now. Mr. Smith stated that bearish fundamentals would likely keep prices moderate and limit price spikes, weather permitting. He referred to a chart showing hedgeable volumes, unpurchased volume which is the open position, weighted average price, and the percentage in the current market price for the forward months. Mr. Smith then recommended buying option collars to sell a put option and buy a call option to give protection down to \$6.50 and up to \$7.50 for December, January, and February; and for February and March when there is a larger open position, adding three futures contracts for February and four futures contracts for March. For February that would be three futures contracts and four option contracts. Manager Reeves clarified contracts as 10,000 dts of gas purchased from SCANA and is the equivalent of four contracts. Commissioner Hancock asked about storage since the two hurricanes. Mr. Smith responded that it was just above the five-year average; the expectation is that there would be 3.45 bcf which is just a little below the record high storage of last year. They are expecting an 87 bcf injection into storage this week with a bunch of gulf production still out from the last hurricane. Commissioner Hancock asked about the price last winter during this time period. Mr. Smith responded that January futures ended at \$7.17 last winter. After conveying appreciation to Mr. Smith, the Commissioners agreed to proceed with the recommendation as presented.

- C. Mr. Gentry noted an offer to the Chamber of Commerce to go out into community organizations to talk about energy conservation. He reported that more and more requests are coming in and that a presentation was made at Callie Self the previous Tuesday, and another would be made the following Tuesday at Matthews Methodist. Commissioner Hancock commented on grading by Funderburk going on near Aldi's. Manager Reeves stated that he had no information on what was going in there.

#### IV. Other Business:

- 1. Manager Reeves asked for guidance on a date for the annual bid opening, adding that it was done at the second meeting of November last year and that would fall in the week of Thanksgiving this year. He pointed out a short window of time to come back with recommendations on the bid items with only meeting once during December last year. The Commissioners agreed to have meetings on November 13 and November 20 at 10:00 a.m. Chairman Monaghan suggested opening some of the

annual bids at both meetings in November. Mr. Burnett responded that he would spread them out between the two dates.

2. Chairman Monaghan inquired about a date for flu shots. Ms. Knott responded that she had planned to call and schedule them the next week, adding that it usually falls in November. After noting that Metro was giving their flu shots the following week, Chairman Monaghan asked why they were waiting until November. Ms. Knott responded that it is recommended because the flu season months are usually December through February. Manager Reeves added that the medical recommendation is to wait because the shots are only good for around sixty to ninety days. Chairman Monaghan requested that shots be given the first week of November.

#### V. Executive Session

A motion to go into *Executive Session* to discuss contractual and personnel matters was made by Commissioner Hancock, seconded by Commissioner Watts, and unanimously approved.

The meeting returned to open session.

A motion was made by Commissioner Watts to proceed with the RFP for the Grace Street property as presented; the motion was seconded by Commissioner Hancock. The motion passed by a vote of two to one with Chairman Monaghan voting "no". Manager Reeves clarified that was for the RFP to go out on the street to real estate agents and developers for response to a RFP; Commissioners Watts and Hancock responded that was the intent. Manager Reeves stated that he would discuss the RFP with Mr. Patrick prior to it going out.

Commissioner Watts noted a discussion during *Executive Session* on refunding a transportation fee from Transco to customers. A motion was made by Commissioner Watts and seconded by Commissioner Hancock to refund a total of \$616,469.84 to those consumers who used services from February and March of 2007 through August 2008, and are still customers, per their usage during that period. Chairman Monaghan expressed an opinion that the money should be placed in a rate stabilization fund where it would be more effective and because of the insignificant amount each individual customer would receive. The motion passed by a vote of two to one, with Chairman Monaghan voting "no".

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

Approved: \_\_\_\_\_, 2008

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Secretary