

COMMISSIONERS OF PUBLIC WORKS
Minutes of August 13, 2009

A regular meeting of the Board of Commissioners of Public Works was held on Thursday, August 13, 2009, at 10:00 a.m., in the Boardroom at 121 West Court Avenue.

In attendance:

Gene P. Hancock	Steve Reeves	Melinda Bishop	Vickie Gorham
Michael G. Monaghan	Ken Barnett	Carlos Cometto	David Tuck
Henry O. Watts	Vicki Knott	Jeff Chapman	Bill Patrick
	Jeff Auman	Chris Lindley	Chris Trainer
	Cary Bishop	Jeff Meredith	George Petersen
	Jerry Smith	Richard Gentry	Stacia May

- I. Chairman Hancock called the meeting to order. The invocation was given by Ken Barnett.
- II. Chairman Hancock gave the statement of compliance with the notification provision of the Freedom of Information Act.
- III. Business:
 - A. Mr. Lindley noted a request from the water treatment plant for proposals for water tank maintenance, adding that at this time they simply wanted to document the proposals received. He commented that Mr. Tuck and Mr. Chapman were not looking for a price today. They would be evaluating the proposals later given that each would likely be different. Mr. Chapman explained how each may propose to do maintenance on a different timeframe since the proposals are for a fifteen to twenty-year lifecycle; it would be extremely cumbersome to try to sort through the pricing today. He continued that those would be evaluated, put into a spreadsheet, and that information would be presented later. Commissioner Monaghan pointed out that it was not on the agenda, adding that the object of opening before the Commissioners was to have a safety valve to keep the process honest. Manager Reeves suggested that since it is so cumbersome, the proposals could be made available later for review by the Commissioners. Commissioner Monaghan stated that the Commissioners may not want to go with a fifteen-year contract. Mr. Chapman explained that it would not be a fifteen-year contract but rather a yearly renewable contract to cover the life cycles of the painting and maintenance of the tanks.

A motion was made by Commissioner Monaghan to add receiving proposals for water tank maintenance to the agenda; the motion was seconded by Commissioner Watts, and unanimously approved.

Commissioner Monaghan suggested recording the pricing for painting the tanks but not any of the subsequent annual maintenance renewals that are not required. Mr. Chapman explained that it would get cumbersome because of the four proposals received; one company may propose painting the Phoenix Tank in year one while another may propose to paint it in year four. He continued that it was difficult to write a request that would put everything down but still be able to choose the best maintenance contract for CPW. Mr. Chapman described maintenance as basically including prepping of tanks for painting by sanding or priming, painting, and addressing any structural integrity issues such as foundation issues. He continued that part of the proposal had requested remote monitoring of the inside painting contract so they would not necessarily have to drain the tank. Some companies may have remote control viewing ability and some may send in divers. He noted that there are not a lot of companies qualified to do this type of work but those qualified have different ways of doing it. Mr. Chapman stated that the goal was to get as many contractors as possible to submit proposals and then to evaluate what was in our best interest. Commissioner Monaghan expressed that it should be done in an open public process. Mr. Chapman stated that they would take all of the proposals and look at an annual savings and a present worth savings for each company; they would show the amount to be saved over the life of the contract and bring the information gathered back later. Manager Reeves recommended that the details of the proposals could be provided through spreadsheets. Mr. Chapman clarified that they wanted to record for the record today the companies who had submitted proposals by the deadline so that no one can come in with a proposal at a later date. The Commissioners agreed to proceed as recommended.

Proposals were then received from Southern Corrosion, Inc.; Tank Pro, Inc.; Caldwell Tanks, Inc.; and Utility Services Company, Inc. Manager Reeves noted that three companies were eliminated as of today because they had failed to meet the deadline.

- B. Commissioner Watts noted that both a Tobacco Policy and Cell Phone Usage Policy were on the agenda for consideration, and suggested postponing both until the next meeting due to some concerns. Commissioner Monaghan inquired as to the nature of Commissioner

Watts' concerns; Commissioner Watts responded that with regard to the Tobacco Policy, it was with the wording about being on or off the property and with how far off the property. The Commissioners were in agreement to postpone both items until the next meeting to address the concerns.

A motion to postpone consideration of the policies was made by Commissioner Watts, seconded by Commissioner Monaghan, and unanimously approved.

- C. Manager Reeves presented a recommendation from staff to participate in the South Carolina Other Retirement Benefits Employer Program also known as the SC Orbit Program through the Municipal Association of South Carolina for the GASB 45 program. He reminded the Commissioners that staff was authorized at the last meeting to place \$500,000 into an account to meet the requirements for GASB 45, and that a trust is necessary to host those funds. He explained that the Municipal Association had set this up for all members to use, and it was discussed with Mr. Michael Nix who suggested this as the best alternative. Commissioner Monaghan noted that a presentation was also provided to the Commissioners. Manager Reeves noted that a Resolution was required in order to utilize SC Orbit. He noted that the Agreement and a Resolution had been reviewed by Mr. Lee Roper. Mr. Roper suggested some changes that were then accepted by the Municipal Association. Manager Reeves stated that it would be appropriate to authorize execution of the Resolution.

A motion authorizing the Manager to execute the Resolution was made by Commissioner Monaghan and seconded by Commissioner Watts. Chairman Hancock noted that the required contribution might reduce over time and asked to receive an explanation of the requirements from time to time. Manager Reeves responded that the requirements could be recalculated on a yearly basis and the contribution adjusted accordingly. With no further discussion, the motion was unanimously approved.

- D. Manager Reeves presented a request to transfer an appropriation of \$140,000 from Code 397 for water line replacement to Code 396 for water meter replacement in order to allow completion of a change out of certain water meters from bond project funds. He noted a spreadsheet showing that a number of meters had already been changed and that a fairly significant increase in revenue was seen afterward because those meters were running slow.

A motion to approve the transfer as recommended was made by Commissioner Watts, seconded by Commissioner Monaghan, and unanimously approved.

- E. Mr. Jerry Smith provided a presentation on natural gas storage and a couple of opportunities that are now available. He noted that Petal Gas Storage would be the primary focus and would also report on another recent opportunity. The presentation would consist of an overview of CPW gas resources and requirements; gas supply risks and remedies; a Petal storage overview; the benefits of expanding storage; storage costs, impacts, and offsets; and conclude with the next steps. Mr. Smith added that the supply overview was an attempt to capsulize what we have and the foundation on which we operate. He reported on contracts maintained in support of CPW's transportation and gas supply requirements including six firm transportation (FT) contracts with Transcontinental Pipeline (Transco) for transportation and some peaking service; four contracts with Transco for gas storage; and one contract with SCANA for gas supply and asset management. He noted that the CPW's FT contract capacities are currently exceeding all summer and winter requirements, adding that we often release excess FT capacity that will not be used, and that unused transportation can be sold to someone else who pays us for it. He explained that the world in which we operate has two pieces: transportation and supply. When it comes to transportation we have everything we need with the only risk being if the pipeline blows up; on the gas supply side, there are some things that can be done. Mr. Smith continued that current CPW gas storage resources act as a gas supply backup. Storage resources cover a large portion of summer requirements (50-60% of peak day usage). If there is a loss of supply in the summer due to a hurricane, we could cover 50-60% of peak day usage but would be at risk for the remaining part. The same quantities only cover a small portion of winter requirements (20 - 30% of peak day usage) so the impact could be greater. As such, CPW has a small risk of supply-based interruption likely due to hurricanes in summer, but a more significant risk in winter. Mr. Smith stated that the addition of Petal Storage would cover more than 100% of summer peak day loads, and 85-100% of winter peak day loads. He provided a graph showing CPW's peak and average gas requirements and peak storage by calendar month. He stated that storage resources are about 5,000 decatherms (Dth) per day; if we had already put all the gas into storage that can be put into storage, then you can pull out as much as 5,000 Dth per day. If for some reason there is not as much gas in storage when you need it, you may not be able to pull out 5,000 Dth for a number

of days and may run out before the need is over. Manager Reeves clarified that it is not necessarily 5,000 per day every day. Mr. Smith added that it is 5,000 per day for as long as it lasts. He then referred to a geographical map of natural gas resources and requirements that showed firm transportation and storage coming out of Transco Zones 1/2/3; some firm transportation coming out of Transco Zone 4 in Mississippi; and some storage in Pennsylvania. He pointed out on the map total resources and total requirements with summer requirements averaging 5,000 and 6,000 per day peak; winter average of 14,000 on average and 23,000 peak. Mr. Smith reported on storage sources with GSS; WSS, and ESS. He noted that GSS and WSS are not that great; it takes a long time to pull them out and does not help much. ESS is bigger; 38,000 can be put in there and drawn out in ten days. Mr. Smith provided a chart with current total capacity for gas in storage and the amount that could be withdrawn daily for each location. He noted 4,900 for eleven days with ESS; after that there would be 1,000 for 50+ days which would not do very much good since most emergencies are for a week or two. He explained that a loss of gas supply would usually be immediate with a hurricane, but in extreme cases like Katrina and Rita it takes a while to recover; immediate recovery was still a few weeks before gas was flowing again. You would have to configure the kind of emergency you are trying to protect against; in this case, and in our case it would be against winter storms and hurricanes in the summer. Mr. Patrick asked if there had ever been more than ten days in a row where we had to get the gas supply almost exclusively from storage. Mr. Smith responded that he did not think there had, but if we were to need it, we could not. He added that the only thing that kept the pipelines moving with Hurricanes Katrina and Rita was gas being pulled out of storage. He referred to the chart showing current ability to draw 4,900 and then dropping down to 1,000. Mr. Smith then provided a chart with firm transportation by month, the peak requirements by month, average requirements by month, and ability to withdraw. He focused on gas transportation by noting the risks of losing firm transportation due to force majeure primarily from a pipeline explosion. He stated that an impact from the loss of FT on Transco would necessitate going to other sources of supply, and noted one interconnect with CGT on an interruptible basis. Mr. Smith explained risk with gas supply with loss of gas supply due to force majeure which could be a hurricane in summer or a winter storm. He stated that basically the same options are there to seek alternate supply from CGT, but so is everyone else; the only other option would be gas storage. Mr. Smith reported on an option for Petal Storage starting in April 2011 that would mean a maximum storage quantity (MSQ) of 225,000 Dth; six cycles would be used per year; the ability to

inject as much as 5,000 Dth per day and withdraw as much as 15,000 Dth per day. He noted there would be a five-year contract term with annual extensions, and related transportation contracts and storage contracts. He provided a slide showing the location of Petal Gas Storage in southern Mississippi and an interconnect with Transco. Mr. Smith referred to a graph including Petal Storage coming out of Transco Zone 4 in Mississippi which is the main line of Transco. He continued that as Petal is currently configured, withdrawal rights would go from 4,900 per day to 19,900 per day. Mr. Smith stated that current ability to withdraw by percentage of the peak monthly usage is 50-60% in summer months and in winter 20-30%. With Petal as currently proposed, in summer we would then have 200% which would really be excess; in the winter months we would have 85-100%. Mr. Patrick asked if this was usage for all customers and if it made sense to look at interruptible customers who had bargained to be interrupted, or if it should only be firm customers. Mr. Smith responded that it was all customers and could be done either way; in an emergency you would expect to be able to interrupt the interruptibles and that tends to be a judgment call. Chairman Hancock inquired about interruptible load; Mr. Bishop responded that it was between 5,000-6,000 per day. Mr. Smith continued with a chart showing maximum storage withdrawal for Petal Storage. Commissioner Monaghan referred to the previous chart on requirements. Mr. Smith explained that the chart showed peak requirements and the bars represented the ability to withdraw; the double bars showed the current daily withdrawal rights. He stated that it illustrates that withdrawal rights with Petal would exceed the summer requirements by quite a bit but would approximate peak winter withdrawal. Commissioner Monaghan inquired about flexibility with injection if the market moves, and if that would offset some of the cost of storage. Mr. Smith responded that offsets would be addressed a little later in the presentation. Mr. Smith returned to the chart showing CPW's maximum storage withdrawal with the addition of Petal that would be eleven days withdrawal for 19,000 per day, and then dropping down after that to another five days at 16,000, and then dropping down to 1,000. Mr. Smith explained the benefits of expanded storage to improve the ability to deliver gas and improves supply flexibility. He commented on the effort to remove the propane system and the costs and liabilities that went along with that, that would have provided roughly 5,000 per day additional if it worked. Mr. Smith continued that the storage enhances the ability to do balancing on days that are either long or short due to lower and/or higher usage. Storage could be used to pull gas out or put gas in to avoid imbalance charges. Commissioner Monaghan inquired about reaction time in ordering the release. Mr. Smith responded that it is daily and

pretty much instantaneous; similar to nominating gas on Transco where it can be nominated by 10:00 a.m. for the next day. If we have gas in storage, we can get it out. Mr. Smith continued that it also enhances peak deliverability during hurricanes and winter storm periods; enables us to serve transport customers with reduced chance of incurring imbalance penalties; and acts as a short-term physical hedge to complement long-term NYMEX hedges. Commissioner Monaghan asked what was meant by a transport customer; Mr. Smith responded that it would be a third party like Eaton who has requested that they transport their own gas rather than buying our gas, so we would distribute gas for them. Commissioner Monaghan asked if there would be any loss to CPW; Mr. Smith responded that we do not lose. Mr. Patrick stated that he was not sure how this enables serving transport customers since you would not supply the gas. Mr. Smith responded that we do not supply gas, but if they are long or short we could use the storage to assist them and charge them appropriately for that. Mr. Smith explained the financial benefits of expanded storage; that permits mitigation of impact from price spikes resulting from hurricane or other localized price disparities; it also permits participation in seasonal price differentials which is the most fundamental benefit of the storage in that you can inject gas now and sell futures that are \$2 more and capture the differential. He explained current configuration costs of \$675,000 per year amounting to \$38 per customer per year or about \$3.15 per customer per month. The demand charge for Petal would go against the PDC and would be roughly about \$0.05 more per CCF. He reported that the current demand charge for Transco is \$2.8 million per year for \$233,000 per month, adding that Petal cost would be about a quarter of what is being paid for Transco. Mr. Smith then provided impact by ranges for customer class: \$0.50 - 4.00 additional per residential customer; \$7.00 - \$22.50 for commercial; \$800- \$950 for firm industrial; and \$450 - \$550 for interruptible industrial. Mr. Smith noted that Petal demand charge costs would be applied to the PDC; storage-related cost offsets would be applied to the PGC. Mr. Patrick asked if the \$675,000 was the total cost per year; Mr. Smith responded that it is the total cost for demand charge which is a substantial part along with other smaller volumetric charges to inject and withdraw. Mr. Smith stated that if you injected every day and then withdrew every day following your injections, you could do six cycles per year. He added that it is pretty flexible and you could also inject for shorter periods of time and then withdraw again. He pointed out that the demand charge is there regardless of whether you use any or not for five years, with one year renewable after those five years. Mr. Patrick inquired about how this would be charged to the customers. Mr. Smith stated that the way the

demand charge is set up now, it would go against PDC; the offsets and other volumetric costs would go against PGC because those are commodity related. Mr. Patrick commented that a specific rate increase would not be necessary; it would be picked up automatically in the billing formulas; charges would hit customers' bills whether it is used or not. He asked if the same would apply to interruptible; Mr. Smith responded that it would to some degree because interruptibles pay a fraction of the demand charges. Mr. Patrick asked if interruptibles would pick up their share of the \$675,000 per year, noting that \$550 per month times twelve months runs into a good bit of money. Mr. Smith pointed out that those costs are proportional to the usage; Mr. Patrick expressed concern that the interruptible industrials are not going to cover their part through being charged to them whether we use it or not, and then that would come back on someone else. Mr. Smith agreed that would be the case adding that they would benefit from it to some degree; Mr. Patrick commented that they could possibly benefit more than anyone else. Chairman Hancock pointed out that it would give us more flexibility than ever before. You can cut back on the price of gas by putting it in during the summer months. Plus you sell to interruptible the whole time; and you are going to sell some back during winter time at a higher price. Manager Reeves noted that the next slide coming up on offsets was key; without those offsets, the extraordinary cost could not be recommended. Commissioner Monaghan asked if interruptible customers that are interrupted would pay the \$450. Mr. Smith responded that they would pay the \$450 through the elevated PDC charge already. The demand charge for Petal would get rolled into the PDC and would raise the PDC so that it would be built in. Mr. Patrick clarified that they would pay it when they take gas; they would not pay it when they do not take gas. Commissioner Monaghan asked about the effect on the other categories; Mr. Barnett confirmed that the cost to residential, commercial, and firm industrial would be higher. Manager Reeves added that if the interruptibles were not paying their share at the bottom, then that cost has to roll into the other three categories. Mr. Smith explained how additional storage could generate and enable some offsets or gains to the cost of the storage. He explained the first offset would be inter-season spreads noting that was the most predictable. He continued that right now there is a \$2 spread; if you have 150,000 in storage and can sell winter futures for \$2 more or \$300,000, then that or something similar is pretty much assured. He pointed out that with the other offsets, it would depend on how things work out. He referred to an offset through intra-season spreads at an estimated \$50,000 to \$100,000 coming from injecting at the bottom of a trading range, and then withdrawing at the top of the trading range when gas prices rally.

Balancing gas can be injected or withdrawn in response to pipeline imbalances such as on a weekend when you are at risk for weather changes especially in the winter against the nomination. If you nominate 10,000 for the weekend and a storm blows in and we take 18,000 instead, we would have to pay an imbalance charge; or if usage goes down more than expected and there could be excess gas and that is not put into storage, we incur an imbalance penalty for being long or short. He pointed out that depending on the circumstances, nothing may be gained from that or you may benefit \$100,000, adding that the \$100,000 would come from avoiding imbalance charges. Mr. Smith then explained that with peaking, to the extent you have gas in storage and get a price rally, you could withdraw gas rather than flow gas, and \$50,000 - \$175,000 was estimated there. He added that the offset ranges were based on the fact that you could be on the upper end of the range one year and the lower end the next year. Mr. Smith stated that if you were to capture offsets of \$400,000, your net cost would be \$275,000 per year for Petal demand charge cost. Mr. Smith then reported on the second option which was with SCANA to get peaking service on Transco. He continued that if they could get peaking service for a limited period such as December, January and February that would allow them to obtain emergency supply to protect against winter emergencies. It was configured at the same quantities as were discussed for Petal; 15,000 Dth per day for a duration of fifteen days. The cost would be \$15,000 per month whereas Petal cost is more like \$56,000 per month. Mr. Patrick clarified that it would be \$15,000 per month for only those three months for a total of \$45,000. Mr. Smith continued that it is less expensive while on the other hand, availability is year-to-year. He stated that it is available largely because of the supply that comes into Maryland; it is convenient for winter peaking while being less expensive than Petal. He pointed out that there are only fifteen days and that could be used up quickly; the gas you would be buying would be relatively expensive because it is an emergency situation, but at least you would have gas as opposed to not having gas. Mr. Smith noted that emergency loss of gas supply is what they are trying to address; however, there would be no ability to recover cost through offsets. He suggested that because this had just recently come up, they might want to consider using a little of both. We would reduce the quantities committed to for Petal to have that all year around, and then use the additional peaking service for winter peaking. Chairman Monaghan inquired about flexibility given there are only fifteen days. Mr. Smith responded that it is fifteen days total for the three months. Commissioner Watts asked if the cost would be related to the quantity; should you change the quantity to 10,000 per day, would the charge then be \$10,000 rather than \$15,000. Mr. Smith

responded that it would work out roughly that way, plus the cost of gas. Manager Reeves added that it would be \$1 per Dth plus the cost of gas at daily market cost. Chairman Hancock pointed out that this gas would be the last tier to be purchased; there would not be any interruptibles on when these fifteen days are used; you would be supplying only residential. Commissioner Monaghan stated that the storage would give a lot more flexibility for gas purchasing. Mr. Smith stated that a determination was needed with whether to go with storage or a combination of storage and peaking. If they want to go with storage, a vote would be required; otherwise, if the preference was to reconfigure a hybrid for a combination of storage and peaking service, a recommendation could be made at the next meeting. He noted that if the quantities on Petal are reduced, the demand charge or price could go up a little. Chairman Hancock inquired about the amount of space left for Petal storage; Mr. Smith responded that there is more space if we want it; CPW is considered a small customer. Manager Reeves suggested that staff put together a recommendation for the next meeting, particularly looking at the hybrid between the two options. The Commissioners were in agreement.

IV. Other Business:

1. Manager Reeves reminded the Commissioners of a pre-bid meeting for main office renovations scheduled on August 17 at 10:00 a.m. in the board room.
2. Manager Reeves asked for dates for the annual Safety BBQ. The Commissioners agreed on Thursday, October 8 at 12:30 p.m. following the regular meeting.
3. Manager Reeves asked for direction from the Commissioners on the possibility of reaching Wilson Creek Wastewater Treatment Plant for annexation. He noted that at the time they were looking at it a year or so ago, they were unsure of the wholesale contract or whether there would be enough benefit. Since that time, there had been resolution of the wholesale contract that has been signed and is now just a matter of legal proceeding. He asked for guidance with whether to proceed again. Commissioner Monaghan expressed an understanding that once Duke got the business that was forever. Manager Reeves responded that there are opportunities in some of the service contracts that would allow them to switch. He added that it could be addressed as a legal proceeding since

there are some legalities involved. The Commissioners agreed to continue the discussion during *Executive Session*.

4. Manager Reeves presented a request from the City for a joint meeting on September 3. The Commissioners agreed on the date. Manager Reeves noted that an e-mail would follow with the final details.
5. Mr. Meredith explained a request from the City for CLICK 46 which is a lighting demonstration of photography and visual arts. He added that Lander is also participating by using their staff and equipment from the visual arts program. The City is requesting that CPW provide services and supply the lighting and power equipment requirements. He stated that the cost to CPW would be around \$1,000 for materials, some of which could be reused, and about \$1,200 to \$1,500 in labor. Mr. Meredith noted that this is a City event the same as the Festival of Discovery and the Thursday night events. The City is requesting that CPW provide power points to plug into and to do any necessary wiring for this event. The Commissioners agreed to the request.
6. Manager Reeves noted seven possible areas for things CPW might be able to provide for Lander. He added that he was awaiting a response from their engineer with the costs.

V. Executive Session:

A motion to go into *Executive Session* to discuss legal and contractual matters was made by Commissioner Monaghan and seconded by Commissioner Watts; the motion was unanimously approved.

The meeting returned to open session. Manager Reeves stated that during *Executive Session* a contractual matter pertaining to a lease agreement for a parking lot at the CPW downtown site was discussed. He noted that it is time to renew that lease agreement and it would be appropriate to authorize the Manager to execute a lease agreement between Countybank and Stephen D. Baggett, co-trustees of the Al Henderson Estate and CPW.

A motion was made by Commissioner Watts, seconded by Commissioner Monaghan, and unanimously approved. Chairman Hancock inquired about buying the parking lot property; Manager Reeves responded that it was made known through Mr. Baggett that CPW would like to purchase the lot; the family is not interested in a sale at this time. There is a provision for first right

of refusal in the lease agreement. He noted that CPW had been leasing the property since 1998.

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

Approved: _____, 2009

Secretary