

COMMISSIONERS OF PUBLIC WORKS
Minutes of May 28, 2009

The regular meeting of the Board of Commissioners of Public Works was held on Thursday, May 28, 2009 at 5:00 p.m., in the Boardroom at 121 West Court Avenue.

In attendance:

Gene P. Hancock	Steve D. Reeves, Jr.	Jeff Elliott	Mark Warner
Michael G. Monaghan	Ken Barnett	Jeff Meredith	Bill Patrick
Henry O. Watts	Jeff Auman	Jeff Chapman	Larry Mattox
	Carlos Cometto	Richard Gentry	Larry Michalec
	Denise Ogletree	Vicki Knott	Stacia May
	Jerry Smith	Chris Trainor	Allison Holland
	Curtis Burnett	Michael Nix	Lee Roper

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. A motion was made by Commissioner Monaghan and seconded by Commissioner Watts to approve the minutes as received for the March 26, 2009 regular meeting; the April 9, 2009 regular meeting; and the April 23, 2009 regular meeting; the motion was unanimously approved.

IV. Financial Statement:

With no questions from the Commissioners, the financial statement was received as information.

V. New Business:

A. Mr. Michael Nix with Greenwood Capital referred to a memorandum dated May 7, 2009 when a recommendation was made regarding investment accounts. He recalled discussions since the previous fall about the use of government sponsored entities or enterprises, the U. S. agency bonds in the portfolios. He noted that the decision at that time was to hold off on purchasing any agencies until such time as everyone was more comfortable with the credit environment. Mr. Nix stated that part of the recommendation in the memo was that given what had transpired since September forward where improving condition in the credit markets had been seen, significant

backing by the U. S. government had been seen in agency and non-agencies such as corporate bonds over that period of time, and had continued to state that they have very strong, implicit backing of the agencies, certainly not explicit in writing but in action. Mr. Nix stated that the Federal Reserve U. S. Treasury has been actively involved in purchasing mortgage securities by the agencies as well, so a lot had transpired. He stated that given the overall rate environment and the attractiveness of agencies compared to treasuries in this market, they would like to have the flexibility to re-engage that market when appropriate. He added that they would not go in and turn the portfolio over and buy a bunch of agencies, but to the extent they have maturities coming due and are looking at repositioning those assets, they would like the flexibility to look back at the agency market. Mr. Nix noted that the revenue bond proceeds account would be one in particular where you are investing for a short term anyway, so you can pick up additional yield with an agency market being they are very short maturity, very short duration securities, and very safe as well. Mr. Nix stated that given the existing conditions and the comfort level to re-engage in that market, they would look at working with the Commissioners to relax the near-term restriction on that asset. He stated that the memo provided for that and an agreement with the Commissioners is requested to re-engage that market. The Commissioners were in agreement to move forward with such an agreement. Mr. Nix pointed out that when the near-term restriction was put into place, that was not done in the form of a motion but more of a general agreement for the time being until there was more clarity. There was not a motion on the front end where there would be on the back end. Mr. Patrick stated that in light of that understanding, it would not hurt at all to have a motion.

A motion was made by Commissioner Monaghan and seconded by Commissioner Watts to approve the recommendation of Greenwood Capital authorizing them to use judgment as appropriate to invest in agencies in compliance with the South Carolina Investment Statute.

Discussion ensued after Commissioner Monaghan recalled that Mr. Nix had mentioned a guaranteed investment a few months back. Mr. Nix responded that they had explored the potential of using some FDIC corporate bonds and had worked with McDonald, Patrick and Haynsworth, Sinkler, & Boyd about using those. He stated that the opinion at this point is that if you wanted to push the envelope you may be able to do it, but certainly under the law that exists within the statutes today, they did not see that as an appropriate investment. He expressed that given that opinion, the recommendation is to hold off until such point if there were to be a change in the statute. He stated that he did not expect a statute change given the short-term nature of the

instruments as they exist today. Mr. Patrick noted that a great deal of time was spent with the Haynsworth Firm looking at the statute; there is one reading that might be interpreted as forbidding that, but his feeling was that was a pretty strained reading of the statute and not the common sense application.

With no further discussion, the motion was unanimously approved.

- B. Manager Reeves noted that an IT assessment and audit was conducted by VC3 at the request of the Board. He stated that the report included two pages with one portion appropriate for open session; the other portion outlined security related items. Based on the Freedom of Information Act, he recommended that the security portion take place during *Executive Session*. Mr. Larry Mattox with VC3 provided a brief history of their organization based in Columbia, SC, noting that 50% of their customers were governmental, including counties and municipalities. He continued with an overview and introduction of the IT assessment consisting of the project scope and objectives used to evaluate and document the existing IT infrastructure; determine the status, topology, data connectivity, stability, and general readiness of the existing network systems; a review of all data networks, IT systems and services utilized; and provide summary analysis and recommendations based on the assessment. He explained that the assessment approach began with a kickoff date of February 23, 2009 and concluded with a close out meeting and two-hour presentation on April 3, 2009. Mr. Mattox noted a particular focus and emphasis placed on AS/400 related issues at the request of the Board. He continued that they learned a lot about the environment and future plans to help piece together everything going on. He stated that they hoped to serve the purpose of providing a report on their findings as well as give information that applies to that; ultimately the bottom line with the final presentation that provided great detail was a technology road map so that there is a path to get to where you want to be in the most efficient and economical fashion. He stated that no major security issues were found, but a few external and internal things were found that need to be addressed. Workstations were assessed; servers were in generally good shape; recommendations were made around the AS/400 as it is, and recommendations were made for the path to consider around the AS/400 or a similar environment. Mr. Mattox stated that with regard to infrastructure, the hardware was found to be pretty solid with good fiber infrastructure in place; several recommendations were made to make things more efficient. He noted good knowledgeable IT people on staff to provide support services. He suggested content management to better manage website updates. Mr. Mattox noted that the assessment should help staff to

work together to better prioritize projects and stay within the budget. Mr. Mattox explained the positives of the AS/400 as having minimal downtime; impacts many areas/departments; potential turmoil without it; and the solidity from a security standpoint. He then explained the negatives including criticism of the base technology; considered outdated by some; inability to pull reports requiring about a \$50,000 update to make that happen; and difficulty of use for new people. He concluded by noting that it is also difficult to find good support for AS/400. Mr. Larry Michalec also with VC3 explained the options to retain the current AS/400 versus replacement of the AS/400 environment. He noted decision factors for replacement including resources to support a conversion; the magnitude of risk of a conversion; the high cost of upfront and implementation costs; disruption and impact on IT and the business; impacts from unknown factors during the conversion; and impact on customers. He stated that the entire IT team embraces the notion of looking for a replacement for the AS/400. They want to look at other options and understand those options, and had already begun the first step in the process with some private studies. He explained for the benefit of the Board what is involved in a conversion. He noted two options with the first being to retain the current environment as it is and leverage the knowledge available to introduce new tools, find ways to reduce development cost, leverage features not in use to reduce cost and gain process advantage, look at ways to increase operability through additional training of new employees, and find ways to introduce new or growing AS/400 support talent. Mr. Michalec then explained the process for conversion noting there are serious things to consider. He stated that a market search must first be conducted for a replacement, adding that the IT team had already begun that process and had found that no one package is going to provide everything. Every product will require some customization which means it will cost you money. If you can find something that does 60% – 70% of what you need, that means you have to custom build the other 30% – 40%. He noted that CPW has very unique code. He stated that the complexity of a replacement system comes at a high price tag. He continued that there has to be a conversion team established with people from every department in the organization. Conversion carries risk should you get halfway through and something changes or the market shifts. The entire process of conversion would take two years or more from the time you embark on the process of selecting until the time you go through all of the necessary evolutions. Implementation costs are high; the better the program the more it will cost. Conversion will disrupt and impact IT and business. Resources will have to be redirected or diverted to support the implementation. Any type of conversion usually results in significant process change. Mr. Michalec added that in a customer focused business such as CPW, those customers are going to be impacted by the change. It may not be

negative impact but all you would have to do is change the look of the bill just a little bit, and suddenly the phones will ring off the hook. He continued that once you start down the path, there has to be a deep commitment. Once you start you have to spend to completion; there is no going back. You must be willing to absorb costs with no immediate return on the investment; there must be a total commitment to the chosen systems vendor; there needs to be a risk contingency plan; chosen vendor must be totally committed to the process and one who will still be in the market two years from now; and there must be some type of promotional awareness/public relations campaign for customer education. Mr. Michalec wrapped up with replacement cost considerations including costs to map workflow/processes to cover feature gaps with dry runs to test the entire system; cost for new/expanded features; upfront costs and implementation; annual maintenance and upgrade costs for a new system; and other miscellaneous costs. Commissioner Monaghan asked about their recommendation. Mr. Michalec responded that the recommendation is that if they can handle and recognize the risk factors, and are willing to accept them, then the answer is to turn Mr. Auman loose to find a replacement. He suggested they first find the package, do the assessments, do a gap analysis, figure out the costs and come back as a team committed to moving down the field. Commissioner Monaghan asked for an educated guess as to the cost. Mr. Michalec responded that there are some packages starting on the low end; however, one they had recently looked at was priced at around \$250,000 to \$300,000. Commissioner Monaghan noted a \$75,000 upgrade to the AS/400 a couple of years ago; Mr. Auman stated that it should be good for at least three years before more upgrades would be needed, provided that a new system is not added. Mr. Mattox then provided a basic roadmap showing that overall technology hardware is in pretty good shape, and the network infrastructure needs minor reconfiguration. He stated they looked at making the system more secure, to work together better, simpler to maintain, and ultimately a complete backup data center. He provided a prioritized list of recommended items to implement on hardware and equipment should a decision be made to proceed immediately. The timeline consisted of five phases and a breakdown including: network infrastructure at a cost of \$30,930; server infrastructure at a cost of \$90,167; security at a cost of \$30,797; workstations at a cost of \$40,614; and e-mail, shared calendaring and web at a cost of \$15,860, for a total price tag of \$208,368. He added that for an environment of this size, CPW is in pretty good shape, noting that all of the recommended changes could be implemented over a three-month period. Commissioner Monaghan stated that they would need to absorb the information presented before making any decision.

Mr. Mattox noted that discussion on security-related issues would continue during *Executive Session*. Mr. Patrick stated that a security report would be appropriate under the Freedom of Information Act during *Executive Session*, as well as discussion of a personnel and a contractual matter.

A motion to go into *Executive Session* was made by Commissioner Monaghan, seconded by Commissioner Watts, and unanimously approved.

Chairman Hancock added that a second *Executive Session* might still be necessary if they were unable to cover everything. He stated that the meeting would return to open session in order to conduct the remaining business on the agenda.

The meeting returned to open session. Mr. Patrick stated that the matter requiring action at this time during *Executive Session* was discussion of a proposed lease agreement with Spirit Telecom for the lease of some space and equipment. He continued that the agreement was reviewed with the Commissioners and they are inclined to authorize the Manager to execute the lease agreement with Spirit Telecom in the neighborhood of \$600 per month lease payments during the five-year lease term.

A motion to authorize the Manager to sign a lease agreement with Spirit Telecom was made by Commissioner Monaghan, seconded by Commissioner Watts, and unanimously approved.

Mr. Patrick noted that management was working on gathering information to bring back regarding the security discussion; therefore, no motion was needed at this time.

- C. Chairman Hancock presented a request from staff for a change order for the CDBG grant project. He explained how a number of old water lines are to be replaced requiring those old lines to be disconnected or "killed out". He noted that staff is recommending a change order somewhere in the price range of \$21,000 to \$25,000, adding that Chandler Construction Services would do the work, and the money would be spent from the bond fund. Commissioner Monaghan asked why this was not bid separately. Manager Reeves responded that during the original bidding of the project, the intent was to do the "kill outs" in-house, but other projects were undertaken since then and now staff does not have enough time. He continued that it would be appropriate to have the contractor do them while they are on site. Mr. Patrick clarified that Commissioner Monaghan was asking if Chandler Construction is the contractor who was awarded the bid and if these "kill outs" are directly

related to that project. Chairman Hancock stated that was the case. Mr. Patrick expressed that it would then be appropriate to use the same contractor.

A motion was made by Commissioner Watts; the motion was seconded by Commissioner Monaghan, and unanimously approved.

- D. Mr. Patrick referred to a memorandum included in their packages regarding a slightly higher interest rate on the overnight sweep accounts through the Temporary Liquidity Guarantee Program or TLGP. He expressed that should there be a motion to approve, that motion should also authorize management to execute the standard Countybank resolutions in connection with setting up those accounts. Mr. Patrick noted that those are the standard resolutions executed on a number of accounts. Manager Reeves added that there is not much of a downside with the new program; it only requires the execution of the documents mentioned by Mr. Patrick to earn a little bit better interest.

A motion was made by Commissioner Watts to authorize management to execute the appropriate Countybank corporate resolutions to establish the accounts as recommended in the memorandum; the motion was seconded by Commissioner Monaghan, and unanimously approved.

- E. Manager Reeves asked for a delay in taking any action on the main office renovation bids given that the information requested from the proposed low bidder had not been received as of this date.
- F. Chairman Hancock presented a recommendation from staff to accept the bids outlined for A-2-2009 for vehicle alignment services. He noted the bids as: Ballentine Ford for regular vehicle alignments at \$36.95, and one-ton 550 series alignments at \$36.95; Firestone Complete Auto Care at \$39 for regular vehicle alignments, and four-wheel drive alignments at \$39; and M & M Tire for 750 series and up at \$83.95. Manager Reeves noted that the recommendation would allow for more than one vendor who can perform the repairs.

A motion was made by Commissioner Watts to accept the bids as recommended; the motion was seconded by Commissioner Monaghan, and unanimously approved.

- G. Chairman Hancock presented a recommendation from staff for lights and poles, noting that the low bidder was not recommended in one instance. Manager Reeves stated that the bids for the concrete bases are the low bidder;

the bids for the decorative lights are the low bidder meeting the specifications; the only variation was the preference to deal with fiberglass poles that were used before. Chairman Hancock noted that Mr. Meredith had provided an explanation in a memorandum included in their packages. Commissioner Watts noted that these were for the new Matthews and Emerald High Schools. Chairman Hancock noted the recommended bids as follows: Line Equipment Sales at \$551.20 for the base; Shealy Electrical - \$502.25 for fiberglass and other poles; Wesco - 41 light fixtures at \$284.75 each, 16 light fixtures at \$284.75 each, and 10 light fixtures at 284.75 each.

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

- H. Mr. Jerry Smith provided a report to follow up on a request from the Board to explore options with expanding gas storage. He reported that they met with SCANA a couple of weeks prior and there was no open season happening at that time. He commented that a decision was needed with whether to submit a non-binding request for storage service. Mr. Smith continued that they would first decide whether to submit and how much to request; the details can then be negotiated over the next couple of months. At the request of Commissioner Monaghan, Mr. Smith explained a non-binding request as being simply a form where we define what we would want; we are not held to that but can negotiate around it. They wanted to see who is interested and to what degree. Mr. Patrick clarified that you would define that you would like to have so much storage, and in effect ask for a quote as to whether they would provide that for us. Mr. Smith stated that the request would define what we would want to have in an ideal world in terms of storage. Mr. Barnett explained that in an open season, the owner of the storage asks everyone who is interested in storage to put in a non-binding request. They are not held to anything and can drop out of negotiations at any point. It lets them see the type of demand for storage and gives them an idea of whether there is enough storage for everyone. It is non-binding in that it puts a place marker there for us that says we are interested in storage and would like to explore it further through negotiations. Mr. Patrick added that you would not put in a price; you would put in a volume that you would be interested in, and it is an expression of interest if the price turns out to be acceptable. Mr. Barnett commented that a lot of different things would determine the final price. They have already given a target per dekatherm (Dth) of the price they have in mind, but it is determined by how much storage you want, how many times you want to have the ability to turn that storage over through the year. The more flexibility you have there, the more valuable it should be to you, and the more valuable it is to them. Because it is non-binding, if you get

halfway through the process and decide it will not work, you drop out with no obligation. Mr. Smith continued that the reality is that if they have fifteen customers and all want to take gas from the same place and move it to the same place, then that is a much different scenario than if half of them want to go from A to B and the others want to go from D to G. They need to line up who wants to go where and see how that falls into place. Chairman Hancock asked if the zones on the pipeline are the same; Mr. Barnett responded that they are. Mr. Smith explained current storage status noting they are looking at Petal storage in southern Mississippi. He explained storage and total capacity now. He explained "true put" meaning what percentage this capacity is of total annual usage. He continued that current storage is about 3.4% of our "true put". Commissioner Monaghan asked about release of storage during the high cost sequence this year. Mr. Smith responded there was not a high cost period this year, noting that no storage had been released in the last couple of years. We had released some to SCANA to operate for us. Mr. Barnett added that we had not released any storage; we had released capacity on the pipeline when it was not needed. Commissioner Monaghan clarified that he was asking if the high price of gas was modified by releasing some low price gas to come to us from storage. Mr. Smith responded that no gas had been taken out of storage yet; they are putting gas in, injections accelerated back in March, and small amounts had been injected mostly into GSS and WSS since October. Commissioner Monaghan asked if the numbers were at maximum capacity; Mr. Smith responded that it was the maximum we could put in. Mr. Smith continued that both GSS and WSS are full, and we are filling the ESS. Ms. Ogletree added that the value of GSS is 8.156 per Dth. Mr. Smith continued that Petal operates the storage field and connects with a pipeline that connects Petal storage to a number of major interconnect points. The interconnect points include Transco, Southern Natural, and the Southeast Supply Header, that is a newer pipeline that brings gas from east Texas over to Florida. This open season would add 3 BCF storage; participation requires a non-binding commitment but they have targeted June 30 as the time to complete negotiations. He noted fixed costs associated with continuum storage, adding that this would not start until 2011. It requires that choices on configuration be made including total capacity, demand charge paid, how many cycles, maximum rejection quantity, withdrawal quantity, and injectional withdrawal points and quantities. Mr. Smith provided a map showing storage areas and pipelines, as well as the Petal pipeline and interconnect points. Mr. Smith stated that if a contract is negotiated with Petal, it would bundle the transportation on their pipeline into the contract. He explained the benefits of storage as being that physically it improves the ability to deliver gas to Greenwood; it enhances the balancing such as issues over weekends when usage goes down and the storage would allow them to

smooth that out some. He continued that it also enhances peak deliverability in cases of crisis like a hurricane so that you can pull gas out of storage. He noted that during Katrina and Rita the only gas flowing in the southeast came out of storage. Mr. Smith continued that financially, it enables arbitrage which is capturing price differentials between two points. You can capture price spikes resulting from hurricanes or other generally weather-driven issues; seasonal price differentials when you can inject in summer and withdraw in the winter; and you can also trade options on gas in storage. He noted that in the case of physical benefit, it would enhance the ability to deliver gas here. The financial benefit would come from capturing price differentials to basically offset the cost of gas. Mr. Smith continued by showing storage costs and demand charge would cost approximately \$0.25 per Dth per month which adds up to about \$3 per Dth for the year. Depending on the volume commitment made, that would result in annual costs of around \$500,000 to \$1 million per year. On a cost per residential customer basis, that would be about \$2.50 to \$5 per month depending on quantity. Mr. Smith stated that to put things into perspective, the amount paid to Transco for demand charge for transportation is \$2.8 million per year; this would be a roughly one third that amount. Mr. Smith then provided three different scenarios configured based on a number of criteria. He noted that the lower commitment option of 150,000 Dth, which is the one targeted now, would put us in the ballpark by giving four cycles (in/out) with transport capacity to be able to inject and withdraw as much as 150,000 Dth four different times. He continued that should that be adopted, the 150,000 would increase total storage to 7%. Commissioner Monaghan expressed agreement with proceeding to increase as much storage as reasonable. Mr. Smith recommended that they first complete the form and at least investigate. He reiterated that the purpose today was to at least identify that as an option. There would be \$500,000 to \$1 million in additional fixed cost. If we can operate the storage in such a way as to offset some of the cost, those costs would be reduced; however, there is no guarantee. Commissioner Monaghan stated that he was nervous about puts. Mr. Smith responded that he was looking at the possibility right now because of high hedge costs, but as of June, hedge costs are coming down. Based on the previous analysis, he would want to sell rather than buy puts. He continued that selling puts is assuming the prices are going to be neutral to higher; you buy puts if you expect prices to come down and prices are at a six to seven year low right now. Mr. Smith noted that the current futures market is in deep contango right now; the nearby months are very deeply discounted. He stated that 2011 prices are more than \$2 higher than the current twelve-month strip; 2011 is \$0.90 higher than 2010 so the market is expecting prices to return to normal as the

economy returns to normal. In the context of storage, that could be helpful. Commissioner Monaghan asked to be kept abreast of the put situation.

VI. Other Business:

1. Manager Reeves informed the Commissioners of bids proposed for July for water tank inspections and asked for several dates to hold a pre-bid meeting.
2. Manager Reeves noted that a final report had been provided by Greenwood United Ministries for the CPW Cares monies. The total from CPW was \$20,000 plus contributions from customers that were in excess of \$4,000.
3. Chairman Hancock noted a customer letter of accommodation for several employees in the gas department for two different occurrences.
4. Mr. Gentry reported that the application for the latest CDBG had gone in the previous day. Mr. Chapman noted this would be roughly \$500,000 to replace galvanized lines at six different locations. Mr. Gentry added that Upper Savannah thinks chances are pretty good. He reported that a booth would be at the Mays House for a community action day from 10:00 a.m. to 2:00 p.m. today.
5. Mr. Elliott reported that all propane tanks had been removed at the propane plant, and noted that one acre would be retained for the regulator station. The fence is almost gone, but would be retained for use at other locations. Manager Reeves commented that the property had been surveyed. They are working on the railroad right-of-way; once that is cleared up, they would come back with a proposal to market the property.

VII. Executive Session:

A motion was made by Commissioner Monaghan and seconded by Commissioner Watts to go into *Executive Session* to discuss a personnel matter; the motion was unanimously approved.

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

Approved: _____, 2009

Secretary