

COMMISSIONERS OF PUBLIC WORKS
Minutes of February 12, 2009

A regular meeting of the Board of Commissioners of Public Works was held on Thursday, February 12, 2009, at 10:00 a.m., in the Boardroom at 121 West Court Avenue.

In attendance:

Gene P. Hancock	Steve Reeves	David Nelson	Bill Patrick
Michael G. Monaghan	Denise Ogletree	Carlos Cometto	Chris Trainer
Henry O. Watts	Jeff Meredith	Vicki Knott	Stacia May
	Jeff Auman	Curtis Burnett	
	Jerry Smith	Richard Gentry	
		Jeff Chapman	

- 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 request to approve a purchase order in the amount of \$150,099.28 to McNaughton & McKay for SCADA upgrades at the water treatment plant. He reminded the Commissioners of their approval the previous month to add this project to the bond list.

A motion was made by Commissioner Watts based on the recommendation of staff; the motion was seconded by Commissioner Hancock, and unanimously approved.
 - B. After Manager Reeves noted a recent considerable decline in natural gas prices, he informed the Commissioners of a likely recommendation to purchase gas beyond the typical twelve-month timeframe. Mr. Smith then provided handouts showing information on current market gas prices. He referred to a chart showing the forward twelve-month strip purchases and calendar year 2010 strip, and noted that both the twelve-month strip and the 2010 strip were below the three-year average; the twelve-month strip is almost six standard deviations below the three-year average, and 2010 is almost three standard deviations below. Mr. Smith stated that we are currently in the middle of the winter period when prices tend to be the lowest. He further explained that makes sense in the context of the fact that markets tend to be driven by fear, and fears are greatest when

unknowns are greatest. He pointed out two times during the year that tend to be more attractive when seasonal lows occur; August to September being one, and January to February the other time. He continued that in both cases, you are coming out of a seasonal period. Right now, winter is more or less over, so there are no immediate fears or concerns. Likewise, at the end of summer in August and September, the concerns about summer air conditioning have subsided and fears about winter have not approached yet. Mr. Smith stated that in using storage as an example, at the beginning of winter, you know how much storage you have going in, but you don't know what the weather will be like or how much you will have coming out. At that point, you have a pretty good idea of what will be left over. Mr. Smith stated that the current spot price is right at \$4.60, which is a huge resistance or support point, adding that it had traded on either side of that for the past couple of weeks. He stated that they had recently purchased 40% of estimated usage for the July 2009 through February 2010 period, and are now looking at going beyond that. Mr. Smith commented on prices being generally in the \$5 to \$6 range, with prices for next winter's months at around \$6.50. Chairman Monaghan inquired about buying puts; Mr. Smith responded that none were bought. Manager Reeves added that puts for the winter period were \$1.20 for \$6 gas. Chairman Monaghan commented that if the price of a put is higher, then the thought must be that the price will fall. Mr. Smith explained that with a put for next winter, much of the price is with the time value because there is so much time between now and then. The nearby options for March are \$0.25; the same option in December is \$1.10; so the difference is simply time value. Manager Reeves recalled a chart showing a suggested policy, whereby were prices to drop two or three deviations below the three-year average, we would not recommend a put. In this case, it is almost six deviations below the three-year average. He continued that based on historical information, it showed that it did not pay to purchase the put when prices were that low, but it did pay to purchase puts when prices were above the deviation above the three-year average. Mr. Smith stated that the success of a put purchased above two standard deviations was almost 100%. Chairman Monaghan stated that he did not understand the time value on a put, adding that he understood the time value or contango on a contract itself, but on a put there is no storage or financing. Mr. Smith responded that the time value actually includes volatility and uncertainty. Chairman Monaghan stated that at \$4 gas, the uncertainty is that it is going to be cheaper and would seem that it would not be that much. Mr. Smith referred to the chart, stating that given the history, it would be very daring to suggest that prices would go even lower because they are already very far below the three-year average. As a

commodity trader, you would ask yourself what the upside and downside would be from here. On the downside, you would tend to be pretty limited, and the upside is pretty large. Mr. Patrick commented that would make the argument for Chairman Monaghan's point that a put should not cost too much. Mr. Smith stated that would be true for the nearby months; however, the report showed put prices are all in the money puts, but get more and more expensive the farther out every month due to the time value. He stated that 2010 prices are at 2.7 standard deviations below the three-year average right now. He referred to the lower 2010 shown on the left side of the graph, noting that twelve-month prices are relatively high during that period, and 2010 prices are discounted; as prices had come down, that discount had changed to a premium. Mr. Smith continued that the next twelve months are discounted and 2010 is relatively high. He expressed the opinion that at some point, this discount is going to go away and nearby prices would move up. Chairman Monaghan asked for an explanation of what was meant by discount. Mr. Smith explained that in terms of contango with the current month being \$4.60 and December \$6.50, if the current trend continues, the \$4.60 price would move throughout every month; by the time you get to December, it would have come down to \$4.60, so the discount moves forward. Mr. Smith stated that the discount would not hold up and would go away; when that happens, nearby prices would move up and 2010 would also move up. Currently, the twelve-month strip is discounted to 2010; at some point, the current year would move up and go back to a premium over 2010. Mr. Smith then recommended purchasing 30% of usage for March 2010 through February 2011 to take us through the next two winters. He noted that we have 40% for next winter and that would give us 30% for the following winter, at roughly \$6.50 for 2010. Chairman Monaghan asked about puts. Mr. Smith responded that then you are going farther forward in time and it would cost more money for puts. He stated that puts purchased below the three-year average tend not to make money; however, puts could be purchased at some point along the way. Mr. Smith stated that if there is a rally and prices move up, that might be the time to look at buying puts; however, he would not want to do that for nearby months. Chairman Monaghan inquired about a chart that was kept on puts. Mr. Smith responded that it had just been updated with January and February data.

A motion to accept the recommendation as presented was made by Commissioner Hancock, seconded by Commissioner Watts, and unanimously approved.

IV. Other Business:

1. Manager Reeves presented an award for Certificate of Achievement for Excellence in Financial Reporting for year ending December 31, 2007, noting this as the thirteenth consecutive year the award had been received.
2. Manager Reeves informed the Commissioners of a request from Spirit Telecom. After Mr. Meredith pointed out that it was a contractual matter, the Commissioners agreed to continue discussion during *Executive Session*.
3. Manager Reeves informed the Commissioners that details of the IT audit had been worked out with a firm in Columbia, VC3. He noted that the first meeting would be on February 23, but some of their engineers would get started before that date. Chairman Monaghan commented that the purpose was not meant to check up on the IT department.
4. Manager Reeves provided copies of the most recent SCAMPS quarterly rate survey. Chairman Monaghan noted CPW as the third lowest electrical utility in the state. Commissioner Watts requested that this information be shared with consumers through the newspaper.

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.

Mr. Patrick recapped discussion during *Executive Session* at which time the Commissioners had discussed a request for design and installation of parking lot lighting by Greenwood School District 50. He stated that the CPW had not had an explicit policy in the past, although they had regularly designed and installed lighting systems that were leased to customers. This customer has requested that they buy the system up front, and contract with the CPW to design and install, and acquire the system forward. He continued that pursuant to discussion, the consensus was that there would need to be a motion to authorize management to provide design, installation, and sale of lighting systems to electric customers of the CPW, subject to the conditions that the pricing would be such that there is assurance that all appropriate

costs are covered so that no other customers of CPW would be in any way subsidizing these services, and subject to the condition that the electric department has the time and capacity to perform the services without impacting on other services that need to be performed.

A motion was made by Commissioner Watts, seconded by Commissioner Hancock, and unanimously approved.

Mr. Patrick noted that discussion also took place on the possibility of entering into a consulting agreement with Kinghorn Hilbert & Associates to help the CPW identify grant funds or other funds that might be available to develop projects or to construct projects for the CPW that may be associated with the federal stimulus package or other monies that might be available. He continued that they had generally reviewed information on Kinghorn Hilbert & Associates, and it was the consensus to have a motion to authorize management to enter into a one-year consulting agreement with Kinghorn Hilbert & Associates on the general terms as discussed in *Executive Session*.

A motion was made by Commissioner Watts, seconded by Commissioner Hancock, and unanimously approved.

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

Approved: _____, 2009

Secretary