

COMMISSIONERS OF PUBLIC WORKS
Minutes of February 26, 2009

The regular meeting of the Board of Commissioners of Public Works was held on Thursday, February 26, 2009 at 10:00 a.m., in the Boardroom at 121 West Court Avenue.

In attendance:

Gene P. Hancock	Steve D. Reeves, Jr.	Vickie Gorham	Bill Patrick
Michael G. Monaghan	Ken Barnett	Jeff Meredith	Mark Warner
Henry O. Watts	Jeff Auman	Jeff Chapman	Stacia May
	Carlos Cometto	Richard Gentry	Curtis Burnett
	Denise Ogletree	Vicki Knott	
	Jerry Smith	Jeff Elliott	

- 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. Commissioner Watts noted a correction to the minutes of January 22, 2009, on page two, line eight that should be changed from Chairman Watts to Commissioner Watts. A motion was made by Commissioner Watts and seconded by Commissioner Hancock to approve the minutes as received for the January 8, 2009 regular meeting; as corrected for the January 22, 2009 regular meeting; and as received for the February 3, 2009 special called meeting; the motion was unanimously approved.
- IV. Financial Statement:

Chairman Monaghan inquired as to whether direction had been given to Bank of New York with investing the six-month debt service fund. Ms. Ogletree responded that it must be put into something overnight or very liquid, adding that was done right after their last discussion. Chairman Monaghan inquired about the reason for being so far off budget after the first month. Ms. Ogletree responded that a lot of it was coming from the gas department; Solutia had shut down some lines and had been using oil for part of the month. She explained that sales in gas would have decreased quite a bit for industrial customers; also, the cost of gas was down over \$600,000 which corresponds to the sales amount. Commissioner Watts asked if that was December usage; Ms. Ogletree responded that about 50% was December, adding that the cold weather would not have hit until January. Chairman Monaghan asked if the cost of gas was higher; Ms.

Ogletree responded that it was not, the cost of electric was slightly higher, but gas cost was down. Ms. Ogletree continued that \$4.6 million was budgeted and \$3.9 million was spent, which was almost \$686,000 for gas cost. She noted that amount would also have to be included in sales; if the cost of gas is less, then the amount for sales would be less, and consumption was also down. Chairman Monaghan asked about the large amount of restricted cash that is not in investments. Ms. Ogletree responded that restricted cash is sitting in the 2007 bond proceeds; it is invested in more liquid investments and also the debt service reserve fund. Chairman Monaghan stated there should be a schedule for how that will be used from the proceeds. Ms. Ogletree responded that they do have a schedule. Chairman Monaghan asked if they look at the schedule and whether it would all be used in one year. Chairman Monaghan requested they take a look to determine if better interest could be made. Ms. Ogletree suggested it might be called "restricted investments" since it is not just sitting in a cash bank account, but is being invested in federated funds. The amount shown on the investment line is strictly the amount over at Greenwood Capital. Chairman Monaghan referred to \$6,452,000 shown in restricted cash that is not at Greenwood Capital in the investment account. Ms. Ogletree stated that part is at County Trust for the bond proceeds, and part is at Bank of New York for debt service, but is not truly cash. She again suggested renaming it as "restricted investment" to avoid confusion. Chairman Monaghan asked if a better return is made where it is, or would it be better at Greenwood Capital. Ms. Ogletree responded that Michael Nix at Greenwood Capital had been directed to look at where Bank of New York was investing the funds; he is working with them to put it into funds that we are allowed to invest in at the best rate we can get. Chairman Monaghan asked if \$6 million was there; Ms. Ogletree responded that about \$4 million is sitting in federated funds at County Trust, and the rest is in debt service at Bank of New York. Chairman Monaghan asked if any of that \$4 million at County Trust might earn a better return if it were at Greenwood Capital. Ms. Ogletree responded that the last time they discussed it, it was earning similar rates. She pointed out that it has to be in a more liquid form, and Greenwood Capital invested in things over two years. She added that we do expect to use those funds within the next two years. Mr. Patrick suggested that Ms. Ogletree check with Jean Martin and Michael Nix about the funds at Countybank Trust Department. Chairman Monaghan stated there should be a schedule showing how and when it will be used based on current projects and withdrawals. Manager Reeves stated they would take a look and get some figures. He recalled a meeting where they had discussed rate earnings between the two accounts, and had found that it was negligible and very close to what Greenwood Capital is earning. Chairman Mongahan concluded that they should always be cognizant so there are no missed opportunities.

V. New Business:

- A. Manager Reeves recommended acceptance of the low bid in the amount of \$21,959 from Butler Chrysler Dodge for a vehicle in the electric department.

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

- B. Manager Reeves noted a request for SCADA system transceivers in the amount of \$32,060 for the gas and electric departments, and that the equipment currently in use had come from H & L. After Manager Reeves noted general satisfaction with the current equipment, Mr. Meredith provided further justification for the request to continue with the transceivers from H & L. He explained that transceivers are used to communicate with the equipment in the substations and gas regulator stations, noting that those currently in use are about fifteen years old, and thus far had been very reliable. Only within the last year had they started to fail to some degree. Mr. Meredith commented that this unit is an upgrade to go along with the SCADA system upgrade approved a couple of months back. One of the SCADA master stations would be put at the main office and one kept at the COC for diversity among the servers so the systems would continue to run should something happen to one. Mr. Meredith stated that three additional prices were also obtained; however, the H & L instrument is four-channel with three currently needed. He added that the equivalent from the others would be more expensive, and H & L is offering a substantial trade-in on the current units, bringing the cost of the units down significantly. Mr. Meredith noted that although they did not go out for a formal bid, they did obtain pricing from other suppliers, and recommended the same source as was used fifteen years ago when the first transceivers were purchased. Commissioner Hancock was in agreement with not going out for formal bids on this item given that it is specialized equipment.

A motion was made by Commissioner Hancock to approve the transceivers as recommended; the motion was seconded by Commissioner Watts, and unanimously approved.

- C. Manager Reeves distributed proposed Gas Policy revisions to the Commissioners for review. He noted that Mr. Smith had already discussed them with Mr. Patrick, and was prepared to go over the revisions today. Mr. Smith provided an additional handout with guidelines, and copies of both the newly proposed policy and the existing policy. He stated that the first page was a summary of highlighted changes. Mr. Smith explained that the new

document retained all of the intent embodied in the existing document; while nothing fundamental had been changed, more clarity and structure was provided in some areas. Mr. Smith suggested that the Commissioners read the new policy and refer back to the old one, and either e-mail or call with questions, or they could sit down to discuss it. Manager Reeves stated that he did not want the Commissioners to become confused going between the proposed changes and the old policy. Mr. Patrick suggested that Mr. Smith go through the proposed policy to highlight the changes. Mr. Smith referred to the first section of objectives pointing out that the old policy had three objectives; the new policy had two, with the second item broken down into three sub-items to go into more detail and provide more clarity. He continued that earlier they had talked about minimizing and stabilizing the cost of natural gas purchased and maintaining stable and competitive rates. Instead, item two outlines how we would maintain stable and competitive rates by taking actions to minimize and stabilize purchased cost of gas, taking actions to minimize the cost of transportation, and taking actions to improve deliverability through the use of transportation and storage. Mr. Smith stated that to facilitate that, they had replaced policy with itemized guidelines. He stated that *Item 1.* with limitations is right out of the original policy; *Item 2.* goes into more detail on how forward purchases would be entered into, including calling out options and option collars also specifically called out. Mr. Smith stated that they would not make commitments in excess of hedgeable volume; the Commissioners would be notified whenever a purchase was made farther forward than six months; and they would seek approval for any purchases farther forward than twelve months. He noted that *Item 3.* provided more structure with forward purchase guidelines broken out seasonally by March - November, and December - February, and established a minimum hedge quantity for each season. In March - November, there should be at least 30% forward purchased for the first month, 20% for the second month, and 10% for the third month, so they are never uncovered in the spot month. For December - February, that number is 40% due to more risk. Chairman Monaghan referred to the March - November period, noting there was not a deadline for purchases, but there is for December - February. Mr. Smith responded that was because of the tendency for prices to rise after October 15. He noted that did not happen this past year; prices continued to fall, but generally that is a good guideline, whereas, in the summer it could be anything. Mr. Patrick clarified that in effect, there is somewhat of a deadline for March - November in that they are required to buy 30% of the hedgeable volumes for that first spot month, so, you are required to have 30% by that point in time. Chairman Monaghan referred to the first month for which forward purchases can be made; Mr. Smith provided an illustration using today as an example. He stated that

March futures expired yesterday so you cannot buy March any more. As of today, you can buy April, so now April is the spot month; it is the first month for which you could buy forward. Chairman Monaghan inquired about a scenario where you don't do anything until March. Mr. Smith responded that in that case, by the end of February, you should have 30% for March covered. Mr. Patrick added that by the end of January, you would have 20% purchased, and by the end of December, you would have purchased 10%. Mr. Smith referred to *Item 10*, explaining the reason why there is a monthly review at which time he sits down with the Manager and provides an update and discusses what happens next; that is the compliance check. Manager Reeves referred back to the deadline noting an original deadline on March – November; he stated concern with that as well as equal concern with the October 15 deadline. He stated that the reason for that was when he is monitoring and prices are dropping, on October 15 prices are continuing to fall, but by policy he has to buy a certain amount by the 15th while seeing prices drop. He continued that he would rather him have the ability to wait until the 16th or 17th of October to make purchases. Commissioner Monaghan stated that the Manager could decide that during the review process, pointing out that these are guidelines. Manager Reeves responded that as long as it is understood there is not a restriction. Mr. Smith stated that with that in mind, he reduced the percentage to 40% so that you have at least 40%, but if prices continue to climb you would be able to add more cover later on. He stated that this past years experience was the reason the percentage was reduced; prices don't usually fall from October to December, but did last year. Mr. Smith continued that they had kept the first paragraph from the present policy regarding price protection, and the second paragraph uses statistical analysis. He noted this was a guideline so that if prices are greater than two standard deviations above the three-year average, a forward purchase is made. For example, if a purchase is made in order to satisfy the minimum and they are two standard deviations or so above the three-year average, they should also look at buying a put. Chairman Monaghan stated that although he had a different philosophy, he would defer to the judgment of Mr. Smith and staff. Chairman Monaghan added that he would like to see simultaneous hedging at some point. Mr. Smith stated that the policy states that this is also subject to the approval shown under *Item 7*. Chairman Monaghan expressed the opinion that if you are fully hedged, you are not worried about whether the price goes up or down. Mr. Smith stated that if you are fully hedged, you want the price to go up. Chairman Monaghan stated that you are protected on the downside with a put. Mr. Smith referred to interruptible customers where the proposed policy goes into more detail, calling out the options for industrial interruptible customers who can use daily pricing or monthly, or can buy forward. Mr. Smith then referred to *Item 7* covering approval, noting

that the section simply restates what was there before; *Item 8* which covers execution was unchanged; and *Item 9* that dealt with records added a second paragraph stating that they would keep records of commitments and contracts. Mr. Smith added that some of that is already satisfied by the daily reports, and would be expanded in the near future. Mr. Smith concluded that the last item provided a little more clarity on reviews; there is still a monthly review for a monthly compliance update, and they would annually review the previous year to see if anything needed changes. Chairman Monaghan stated that they have to rely on Mr. Smith's judgment; Mr. Smith should not be so tied up with approvals that he cannot do anything. Mr. Smith responded that the approval process is pretty streamlined. Manager Reeves noted that it was not any different than in the past. What has changed is the review and reporting to make sure the Commissioners are given a copy. Chairman Monaghan stated that Mr. Smith should be free to use his innovation, insight, and gut feelings without being second guessed. After the Commissioners determined they were ready to proceed with approval, Mr. Patrick stated that in light of the discussion they might want to add language on guidelines for exception circumstances to reflect the discussion, such as the comment made by Manager Reeves on prices falling on October 15 and wanting to wait until the 17th. He noted that the policy does state "shall follow these guidelines". Mr. Patrick suggested it might be better to state "except under exceptional or unusual circumstances". He suggested adding another sentence or so, and then it could be approved subject to that editorializing. Mr. Patrick stated he would prefer to look back through it with that in mind to make sure that somebody five years from now looking at the policy and not present for this discussion would understand and not say that they could not wait until the 17th.

A motion was made by Commissioner Hancock and seconded by Commissioner Watts to approve the policy subject to the addition of editorialized comments as discussed; the motion was unanimously approved.

VI. Other Business:

1. Manager Reeves reminded the Commissioners of a pre-bid conference that afternoon at 3:30 p.m. in the boardroom.
2. Chairman Monaghan asked if letters were sent to the homeowners on Henderson Street regarding the new water line to that area. Mr. Chapman responded that it was done. Ms. Gorham added that she did not know about the response without looking back at work order histories; however, she would check and send Chairman Monaghan an e-mail.

2. Chairman Monaghan inquired about the status of the IS audit. Manager Reeves responded that the initial meeting which was an all-day session with the auditors took place on the previous Monday. Their people were in for data collection and went unit to unit at that time to gather information. Interviews were held with Mr. Auman, Ms. Ogletree and himself. Manager Reeves noted that Mr. Barnett was also scheduled to meet with them the following Monday. He noted that according to the schedule provided, the audit should be completed by the end of March. Chairman Monaghan expressed special interest with the AS400 and determining whether it is really the best option; Manager Reeves stated that was discussed during the initial interview, and the auditors are aware that we want particular attention given to that item. Mr. Auman added that they are sending a specialty person back who is more familiar with those types of systems.
3. Chairman Monaghan asked Mr. Warner if their internet connection was through the telephone company, and Mr. Warner responded that it was.
4. Chairman Monaghan inquired about the inclusion of administrative costs in the grant application process. Mr. Barnett stated that he was not aware of putting in a specific piece. Manager Reeves noted that with some grants they can count costs toward our portion of engineering cost; he added that some other costs might be lumped in with engineering cost as part of the application process. Chairman Monaghan requested that someone look into that with future grant applications. Mr. Barnett stated that they would check into it, adding that much of it is considered part of your match.
5. Commissioner Hancock noted a gas line on the corner of Marshall Road and South Main where a gas station is being constructed. He stated there is an 8-in. high pressure line there. Mr. Elliott stated that he would go by and take a look. Commissioner Hancock referred to the North Regulator Station and pointed out that the land would be sold sooner or later, and a buffer zone would be needed for noise. Also, we would eventually have to come out of there to loop the system at some point in the future. Commissioner Hancock stated that these things should be considered before selling the land and having to buy some of it back.
6. Chairman Monaghan noted customer complaints from people in the Stoney Pointe and Pucketts Ferry areas about the taste of the water and inquired if anything had been added yet. Mr. Chapman responded that they had increased the carbon feed; he noted that normally this did not occur until March. He stated that samples were run and they found that the organic

content of the raw water is up. The theory for this occurrence earlier than usual is that it is due to the drought last year and the heavy rains experienced in January causing a lot of live vegetation to be washed into the lake rather than the normal lake turn over.

7. Mr. Gentry reported that LMI streets are still being identified. He stated that Mr. Chapman had informed him of a web seminar put on by the American Water Works in regards to the stimulus package, and that he would participate. Chairman Monaghan requested some type of plan to target grants for different areas so there is a sequential approach and so that they are always planning for the next grant.
8. Commissioner Hancock noted past discussion of AAA bonds and the funding of fringe benefits for GASB; Ms. Ogletree responded that she had spoken with a representative who was working on it and what should have taken six weeks has taken six months because we have a very complicated plan. There should be a spreadsheet and a draft ready within the next week. Chairman Monaghan stated that Metro had already put \$200,000 in the budget, and had deposited funds with the Municipal Association. Commissioner Watts stated his understanding was that they had not done anything yet; Commissioner Hancock stated that he had read that the whole thing had been postponed because no one has the money to fund it. Ms. Ogletree noted that we are not required to fund it right now, but we should evaluate everything first.
9. Chairman Monaghan inquired as to when the bad debt collection program would be operational, noting that they had been working on it for a long time. Ms. Ogletree responded that a test file had been sent that week. Chairman Monaghan inquired about a date certain to get started. Mr. Auman stated that he was not sure how far out we are now that a test file had been done, adding that we had the programmer working pretty hard on the red flag project because of the deadline there, then that was put off for a little while. The programmer was backed off of that now that the deadline was extended and put back on bad debt collection. Mr. Auman noted that it took a while to get the details of the contract ironed out before we could release the programmer to go to work on it. He added that he would get a date for when to expect completion.
10. Chairman Monaghan asked about network projects for a vehicle maintenance system shown on the COC Planning Report with an estimated start date of December 2006. Mr. Barnett responded that they have the system; they do not have some of the specific vehicle data such as mileage and various checks. He added that they would get back on it immediately and finish it. Chairman

Monaghan requested a date certain noting that this had been under discussion for eight years.

VII. Executive Session:

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

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

Approved: _____, 2009

Secretary