

SPECIAL COMMITTEE ON ENERGY CONTRACTS AND RELATED ACTIVITIES

October 21, 2008

6:30 PM

Chairman Lopez called the meeting to order.

The Clerk called the roll.

Present: Aldermen Lopez, Pinard, Shea, Garrity, J. Roy

Messrs: T. Clougherty, K. Sampson

Chairman Lopez addressed item 3 of the agenda:

3. Discussion related to natural gas and electricity purchases for the city.

Mr. Tim Clougherty, Highway Department, stated thank you Mr. Chairman and Committee members. With me tonight is Mindy Salomone-Abood, the City's purchasing agent. As you are probably aware, the Highway and specifically our coordinated purchasing function has been working some time on a consolidated energy purchasing plan for electricity and natural gas. The concept is that we consolidate our accounts and go to the open market for electricity and natural gas purchase rather than paying the default price through PSNH and National Grid. Although this may sounds like something you have heard in the past, it's not. We will save money by purchasing through this approach and there is very little exposure. This approach will generate quantified savings based on the comparison of prices we purchase at in comparison to the default rates from PSHN and National Grid. In other words, if the package doesn't provide savings we are not going to be moving forward with it. It works something like this: the City would publish an RFP for professional services for an energy services consultant. This consultant will solicit bids on our behalf through electricity and natural gas suppliers and they are going to fashion this bid in several different ways with large accounts, small accounts and contemplate both short term and long term purchases. It will be marketed to the energy suppliers which will be qualified either through the PUC or other sources. The consultant will also advise on the best time to purchase this energy. The accounts contemplated will include all City Departments as well as Enterprise organizations including EPD and the Airport. The School District will also be part of the package. It's a concept that has been

used by Water Works with success in the past and Water Works has recently entered into such an agreement in the past month. This City would then enter into a contract after the consultant has marketed to the energy suppliers. They would enter into a contract with the supplier to provide the energy in the terms and quantities that we chose. We are going to be required to move very quickly as the prices we get will be based on actual current market conditions, actual traded prices at the time. As most are aware, the current price of oil is down which means the price of natural gas is down. The price of electricity is directly related to natural gas. Over the past week or so I have been solicited by at least four or five different firms trying to sell us this energy on the open market so our timing in going out with the RFP and engaging the consultant is very fortunate. The billing will come through our traditional suppliers. In this case it would be Public Service and National Grid. There continues to be two portions of the bill. One is for the transmission; you have your standard cost and other costs. Then the other portion of the bill would be for the actual product itself, the electricity or the natural gas. That is where you would find the supplier's name that we have engaged. The consultant is going to be paid based on a piece of the actual product that we purchase, based on the quantity that we purchase, and it will be paid from the supplier. They will be paid a maximum or minimum compensation. Right now we are looking at \$0.00125 per kilowatt hour or \$0.10 dekatherm. We have also engaged a consultant to aid us in the procurement of fuel oil, diesel and other oil based products in the future. Although this year we have done that, we did engage a consultant on a short term basis to make sure we were going to the market at the right time. With regard to electricity and natural gas, electricity specifically, we have contacted our local PSNH representative. I have heard some concerns about going to the open market and what PSNH's position would be, they encourage the City to seek out the best price for electricity. Although it may seem like a difficult position, contrary to what their business purpose is, the fact is that PSNH is also required to buy this electricity on the open market as they can only provide enough power to supply roughly 60% of their customer base. Tonight we are seeking the general concurrence from the Committee on our approach. Mr. Keith Sampson with Competitive Energy Services, the consultant that we have chosen, is here tonight or will be very shortly if he isn't already, should there be any specific questions that I can't answer you may want to direct to him.

Alderman Garrity asked Tim, did you stated that the consultant will be paid by the supplier and not the City?

Mr. Clougherty replied that's correct.

Alderman Garrity asked what are the general duties of the consultant? Does he work for the City or the supplier?

Mr. Clougherty replied he works on behalf of the City, marketing the products that we tell him to market based on the quantities and the terms that we tell him to market. In other words, he is going to look at all of our accounts of which there are literally hundreds, from the electricity side and he is going to put together packages that he thinks best in his opinion. This is the market he deals in; he will get us the best pricing. In other words you may put together a package of large accounts and a package of small accounts. You may see a price for the large accounts of say \$0.085 per kilowatt hour and maybe something a little bit more for the small accounts. They put something together with all of the accounts and we compare those prices to the default rate that PSNH is charging us right now, which we know is a fixed quantity. We were also notified most recently of exactly what PSNH is going to be proposing to the PUC for a rate increase as of January 1, 2009.

Alderman Garrity asked do you have an idea...it's probably too early but do you have an idea of the potential savings for the City?

Mr. Clougherty replied I am obviously going to be very conservative. Anything that we do is going to generate a savings. Initial indications are that they would be in excess of six figures.

Alderman Shea asked when will the consultant come on board?

Mr. Clougherty replied we actually received a proposal last week. We went out for public proposal. We notified in the paper. We only received one proposal, which would normally lead us to some concern. However, this consultant has been engaged with the Manchester Water Works for some time and Mindy and I met with Tom Bowen and Bob Beaurivage to understand the concept further and they are very happy with their services. We have met with him on a couple different occasions and his company and we are quite confident in their capabilities. Right now I believe I have a contract on my desk waiting for execution.

Alderman Shea asked the funding is from where?

Mr. Clougherty replied the funding will be traditionally through each department as they currently pay their electricity and natural gas bills.

Alderman Shea asked so basically to pay for the consultant each department is going to contribute a certain amount? Is that what you are saying?

Mr. Clougherty replied each department would pay an adder, if you will, to what ever price we negotiate for the individual commodity we are purchasing. In other words, for electricity right now, PSNH charges \$0.0957 per kilowatt hour. If we were to engage PSNH under this term, we would pay them \$0.095825.

Alderman Shea asked how long will the consultant be involved with this process? Is it a one-year situation or is it something that is renewable?

Mr. Clougherty replied the initial term of the contract is three years. We have the right to back out of the contract with 30-days notice at any time and we reserve the right to extend for one additional three-year period.

Alderman Pinard asked how many buildings are involved in the City that is going to be under the PUC or the general grid?

Mr. Clougherty replied it is hard for me to say. I would say in excess of 60 buildings.

Alderman Pinard asked how many are on gas as of now?

Mr. Clougherty replied I don't have that number, Alderman.

Alderman Garrity asked is there a potential for a disruption in service?

Mr. Clougherty replied no.

Alderman Gatsas asked Tim, can you give me PSNH's rate?

Mr. Clougherty replied \$0.0957

Alderman Gatsas asked what is our current rate?

Mr. Clougherty replied that is our current rate.

Alderman Gatsas asked what is he telling you he can get the rate for?

Mr. Clougherty replied he hasn't told us yet.

Alderman Gatsas asked do you have any idea what the spot market is?

Mr. Clougherty replied today no. The spot market is really irrelevant because we have to provide them with the quantity of electricity that we are going to be purchasing, how many different accounts that is. We went out with a trial basis

about three weeks ago. We had 28 accounts. They were our largest and most attractive accounts and the number we got at that time was about \$0.088 per kilowatt hour.

Alderman Gatsas asked is it a long term contract or short?

Mr. Clougherty replied a short term contract.

Alderman Gatsas asked what was the quote on the long term contract?

Mr. Clougherty replied Water Works had a long term contract and I don't have the exact numbers with me but it was roughly \$0.10.

Alderman Gatsas asked why would they go from \$0.095 to pay \$0.10?

Mr. Clougherty replied because they are looking at a long term contract that starts in January and PSNH has proposed to the PUC in excess of a 10% increase which would put their rates in excess of \$0.105 per kilowatt hour.

Alderman Gatsas stated my understanding is that 70% of the power is for 70% of their people. Their blended rate is \$0.095 because they must buy off the spot...long term spot for their blended rate. That is what we are looking at because they have got to buy 30% of their power on the open market.

Mr. Clougherty stated according to what they have told me, they have got to buy about 40% of their power. Perhaps you know...

Alderman Gatsas replied I am not going to tell you that I know more than you do about it but I have been invested a little longer in it than you may have. My question is, if we see that rate going up, let's say it's going to go up to \$0.105, do we think that the spot rate is not going up higher? You said that electric rates are based on natural gas.

Mr. Clougherty replied that's correct.

Alderman Gatsas stated certainly not PSNH's rates because they are based on fossils.

Mr. Clougherty replied PSNH only adjusts their rate twice a year, in January and July. They haven't gone down even though the price of oil has dropped below \$70 a barrel. They are still looking for an increase in January through the PUC.

Alderman Gatsas stated I guess we will have this discussion at the full Board. It's coming up there anyway.

Mr. Clougherty stated the bottom line Alderman is that I am not going to pretend to be an expert in energy purchasing or the spot market or the OPT regulated market. What I am telling you is we are working with a consultant who is providing us with a proposal that I believe we have fully evaluated and if the savings are not there we will not be entering into this proposal.

Alderman Gatsas replied with all due respect, I always get nervous when the person that I am buying something from, the consultant, is getting paid from.

Alderman Lopez asked we have a lot of pluses, what are the minuses of this? Are there any minuses?

Mr. Keith Sampson, Competitive Energy Services, replied you are buying a commodity when you buy electricity supply, natural gas supply, oil supply. The downside is that the commodity price could go lower and you might have not elected to lock in at the right time. Our job is to advise. The plus side is that it's budget certainty so you lock in your price; you know that price and in a market like it is today it is just so volatile we are attempting to time the bottom portion of the market. There really is no other down side than that.

Alderman Lopez stated Tim, you would be working within your budget, in order to provide the necessary electricity or energy, whatever you want to call it, to the departments. They will be paying for that and you would sign a contract as you move forward with a potential savings as you indicated six figures.

Mr. Clougherty stated that is what our initial estimates indicate, correct.

Alderman Gatsas asked for long term contracts, who are you buying them with and through?

Mr. Sampson stated in the New England market ever since deregulation back in 1998 there has been a variety of suppliers. You have probably all seen the signs on New England Cable News on Constellation New Energy. That is a supplier of electricity and natural gas. Even today PSNH buys a portion of their electricity supply through suppliers. So there are suppliers out there. Another one is Jexa Energy. They are a division of Florida Power and Light, the largest utility supplier out there. A lot of these plays that you have seen Warren Buffet making and a lot of the other big energy plays that you hear about on the news are generally the supply side. That is the side that is deregulated and that's the side where

competitive market prevails. Those are the types of large institutions, large firms that you will be buying from.

Alderman Gatsas asked what is the cost of the spot market today?

Mr. Sampson replied the price of oil dipped under \$70...

Alderman Gatsas interjected not oil. Electricity in the grid.

Mr. Sampson replied if you bought what's called LMP, Locational Marginal Pricing, which is a price of electricity that is set everyday, it's a variable, the price today was \$0.065 per kilowatt hour for that moment in time. It has ranged as high as \$0.12 per kilowatt hour.

Alderman Gatsas asked the spot market was \$0.06 today?

Mr. Sampson replied yes. That price could jump to \$0.20 per kilowatt hour in any given market fluctuation. You want budget certainty.

Alderman Gatsas stated I haven't heard a spot market at \$0.06 for the last ten years.

Mr. Sampson asked for electricity?

Alderman Gatsas responded correct.

Mr. Sampson replied it's published on the ISO New England website. You are right. That is because there is a lot of risk involved. Large companies will take that risk and they will float that market. It's called day ahead pricing.

Alderman Lopez asked what are we looking for Tim? Authorization or just blessing, move forward?

Mr. Clougherty replied yes. Just a general concurrence that the proposal makes sense. We wanted to make sure that before we move forward with this we had the opportunity to bring it before the Committee and the Board to hear any objections or concerns and answer any questions.

Alderman Garrity moved to allow Tim Clougherty of the Facilities Division to move forward with the proposal. Alderman Pinard duly seconded the motion.

Alderman Shea asked are you a consultant presently for the Water Works?

Mr. Sampson replied that is correct.

Alderman Shea asked how long have you done that?

Mr. Sampson replied for four years.

Alderman Shea asked what has their margin been? In other words, what are their savings? Have they saved quite a bit of money because of your work with them?

Mr. Sampson replied just on the most recent buy we saved them \$110,000. That's projected out. That is real. We know what the price would be with Public Service of New Hampshire and we know the price that the just locked in at, so the differential is what they will save.

Alderman Shea asked previous to this year what was their margins?

Mr. Sampson replied previous to this year, they were on Public Service in New Hampshire so the consultant made no money. Suppliers made no money. The lowest price for the City was Public Service of New Hampshire. What has happened is PSNH really hasn't kept up with all of the fees that were loaded into electricity through ISO New England. ISO New England is basically like the air traffic controller that oversees all of the electricity in New England. We don't have enough power generation in New England so therefore there are fees that all rate payers pay. Public Service of New Hampshire didn't keep up with those rates and their portfolio, which has traditionally been a low portfolio, has been coal, nuclear. Those costs are going up. The cost of coal has gone through the roof. They had a lot of oil. Oil went through the roof and so now they have published their rates and those rates are higher than what you can do in a competitive market because the commodity, natural gas, which is what drives electricity pricing, has come off 57% since July 3rd.

Alderman Shea asked but prior to this past year, how have their fared? In other words, the first through the third year that you have been involved with them?

Mr. Sampson stated they typically have saved 10% to 15% over other options.

Alderman Lopez asked Tim, would get a bio on the consultant to all of the Aldermen so we know who he is and who we are deal with?

Mr. Clougherty replied certainly.

A vote was taken on the motion to allow Tim Clougherty of the Facilities Division to move forward with the proposal. There being none opposed, the motion carried.

There being no further business, on motion of Alderman Garrity, duly seconded by Alderman Shea, it was voted to adjourn.

A True Record. Attest.

Clerk of Committee