

**SPECIAL COMMITTEE ON ENERGY CONTRACTS AND RELATED  
ACTIVITIES**

**December 16, 2008**

**5:45 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 relative to the purchase of petroleum based products for FY2010.

On motion of Alderman Shea, duly seconded by Alderman Pinard, it was voted to discuss this item.

Mr. Tim Clougherty, Deputy Public Works Director, stated thank you Mr. Chairman. As most are probably aware, the United States and other areas of the world have experienced unprecedented drops in petroleum based product prices in the past three months or so. To that end, we thought it would be beneficial to do an analysis of potentially purchasing products for future consumption, in other words for fiscal year 2010 currently. We wanted to bring this idea forward to the Committee for consideration and ask for the rights for the Highway Department to move forward based on our consultants recommendation and after collaboration obviously with our Finance Officer, should the market continue to drop to a point where we think it would be beneficial to exercise that right. Indications are currently that petroleum based products are going to continue to fall depending on who you talk to. How far they are going to go is certainly speculative but I have some graphs that I would like to hand out. We are looking at pricing that we haven't seen really since the second half of 2005, so about three and a half calendar years. That is the concept that we are talking about exploring. I am sure that more discussion would have to be taken up with the Finance Officer relative to future appropriations but we are looking at a potential commitment and no

capital outlay. We would be committing to consumption based on averages that we developed over the course of time through the various agencies in the city; Airport, EPD, Highway and a small amount in schools. With that I certainly would entertain any questions. With me here tonight is Keith Sampson from Competitive Energy Services and Mindy Salamone-Abood from our Purchasing Division.

Chairman Lopez stated let's call it a team. The Finance Officer, yourself, Mindy, the consultant and the City Solicitor, will work on this as a team, if we give you the authority to move forward. With that team indicating that a savings are going to be there before anything happens. Am I correct?

Mr. Clougherty replied yes. I certainly welcome participation from all of those people and would love to do that. When you talk about savings though, savings in comparison to what, is the only question I would have.

Chairman Lopez stated well as of December 9<sup>th</sup> you would have saved \$567,000.

Mr. Clougherty replied that is correct.

Chairman Lopez stated let's say on January 1<sup>st</sup> you make a decision, I just want to find out where that authority is going to lie. Going back and forth you are going to lose time. I don't know what it is today. Can you still save \$567,000 today?

Mr. Clougherty replied we would save more today. The market is down five cents from when we put this together.

Chairman Lopez stated I am just trying to figure out who will be making the decision. Will it be one person or the group combined saying let's move on this and then tomorrow it drops another five cents. Then you say we should have waited. I don't want the Aldermen to say you should have waited. We need to make sure that we know who is going to have the authority and what they will have the authority to do.

Mr. Clougherty replied there are a lot of Monday morning quarterbacks in this energy market.

Chairman Lopez stated we are no experts over here.

Mr. Clougherty continued as far as the Highway Department goes we would welcome the participation of Mr. Sanders and Mr. Clark, on this team. I would certainly love to hear their comments. I don't want to speak for Bill Sanders but I know he thinks that consideration of forward purchasing is a good idea, in and of itself. Whether I could get Tom Clark or Tom Arnold to buy into a certain price, I don't know but we would certainly...

Chairman Lopez interjected I am looking more in the legal aspects of committing money and contracts.

Alderman J. Roy asked Tim, this is essentially the same thing we just did with electricity, correct? We bought forward and locked in a certain price. Maybe I am wrong and correct me if I am. Is this the same type of deal? The reason I am saying that is because you sat there and said there is no way we are going to sign a contract if we aren't going to save money. I am thinking we could structure this the same way.

Mr. Clougherty replied the difference with this is that this is not a utility. There is no default rate. There is no default rate that we would go to for diesel. No one will guarantee the highest you are going to pay is \$2.85 a gallon, so you are playing the market no matter how it ends up.

Alderman J. Roy asked but we will lock in at a price?

Mr. Clougherty replied we will lock in at a price and we would fully understand what our risk is.

Alderman J. Roy asked if we lock in at say \$2.00 a gallon and it goes up to \$3.00 is that good for us?

Mr. Clougherty replied we are doing very well.

Alderman J. Roy asked if it goes down to \$1.00 a gallon is that bad for us?

Mr. Clougherty replied that is correct. I think what we are telling you is, what needs to be considered most strongly here are the graphs that are at the end of the packet that we gave you. When you look at these graphs the far right side is where our pricing is today. The rest of the pricing is where we have seen it over the past five years. You have to go all the way back to around the second half of 2005 to see sustained prices where we are today. It really is a buyers market right now. The markets are saying that things may keep falling and I will let Keith speak to that. I am not an expert on speculating on fuel.

Alderman Shea stated that is who I was going to ask to speak because I think that timing is everything in life and certainly it is everything in this regard, as far as we are concerned. Keith if you would give us some type of calculation as to when would be the best time for the Manchester community to lock in. Could you give us some of that?

Mr. Keith Sampson, Competitive Energy Services, stated obviously we track this market tightly. I think the most logical approach for you to take is to establish a strike price. We are never going to time the bottom; maybe we do but we certainly don't have a crystal ball. We do know a lot of what is going on economically. Tomorrow is going to be a big day. OPEC will cut roughly two million barrels of production tomorrow. That is probably built into the price that we are seeing in the market today. The market is going to do one of two things tomorrow it is going to react lower or it is going to react higher. We see crude oil as \$35.00 a barrel that is the absolute bottom. Today we are at \$42.44. I know you have heard and read others say other things. As your consultant, this is what we are sitting here telling you. To time \$35.00 is going to take some patience and it is going to take some timing. My approach is to tee this thing up so that we have the ability to react to market conditions. Ultimately what we are really pricing is heating oil futures for January 2010, which is certainly a little bit of a different animal than crude oil futures for January 2009. They are a year out and future prices are higher, more inflated than the current pricing so establishing an actual price for what this product would be given where those future markets are going...Let me give you just an example of what has happened here in the last week and a half, crude oil really hasn't moved a whole lot but the future price of heating oil has dropped five cents so that say the futures continue to decline. The answer is we are a lot closer to the bottom than we are to the top and the opportunity is going to hit and we are going to need to take advantage of that. It is going to be somewhere between where we are today at \$43.00 a barrel and if the market goes as low as \$35.00 a barrel.

Alderman Shea asked would the time be in April or so that we should lock in, or maybe between now and then?

Mr. Sampson replied seasonality has nothing to do with it. It is purely based on the financial markets out there so the day could be tomorrow or the day could be in nine months. That is sort of the patience that we have to deal with.

Alderman Shea asked what are you recommending? What do you suggest that we do?

Mr. Sampson replied I recommend that we actually take a hybrid of the above. You don't have to lock 100% of it in now. You can take smaller increments and look at a smaller incremental hedge at a price around \$42.00 a barrel with the option that if it drops another dollar or two we take another one out around \$40.00 a barrel.

Alderman Shea moved to accept the recommendation from the consultant with the understanding that the team include the City Solicitor as far as legal obligations of contracts.

Mr. Clougherty asked could we ask Tom Arnold to speak to any potential issues he sees with that moving forward?

Mr. Tom Arnold, Deputy City Solicitor, stated I really don't see any potential issues. What we are really talking about here is giving staff the ability to act, given the speed that will be necessary when the market pricing becomes right to enter into the appropriate contracts. That at its base is what I think we are asking for. I would just want to be clear on what the motion is. Whether it is....

Chairman Lopez interjected the motion is that we authorize them and for them to make a decision whether they are going to lock in. It will consist of Kevin Sheppard, Highway Department, or Tim as representative, the Purchasing Division, Finance Office and the City Solicitor to make sure everything is legal.

Mr. Arnold replied I understand that Alderman, but there was some discussion by the consultant about exercising contracts at certain strike prices and I just wanted to be sure as to whether that is in the motion or whether this is basically a general grant for authority for the staff to enter into contract when they feel it is advantageous to do so.

Alderman Shea stated I think I mentioned that in my motion that we would follow what the consultant had said.

Chairman Lopez stated I don't know if we would follow what the consultant has said. I am more concerned about the approval of the staff with the consultant before a contract is signed.

Alderman Shea stated he indicated that they would lock in a certain amount at whatever price exists and then they would lower it depending upon what the market is. I guess the timing would coincide with what the OPEC nations do and what the price is. I guess you quoted \$42.00 a barrel now. It may go down to \$40.00 or it could hit the bottom at \$35.00 a barrel. Is that correct? Am I quoting you correctly, Keith?

Mr. Sampson replied yes.

Chairman Lopez asked I am not holding anything up by having the other players in there, am I?

Mr. Clougherty replied certainly not. We welcome the participation.

Alderman Pinard asked will we be able to look at that contract before it is signed?

Chairman Lopez replied no. My opinion is we are going to give staff the authority to move forward with a consultant that we are paying and they agree with the consultant that we should lock in at a certain price and save money. I think that is what we are saying. If we have to wait until the contract comes back, the price may not be there.

Alderman Pinard stated I realize that. I feel the way you do. I think we should trust staff.

Mr. Arnold stated I would just point out for the Aldermen's benefit that when you are dealing with a futures contract, it is a relatively standard contract. They are not going to be very individualized to the City other than having the City's name on the contract.

Alderman J. Roy asked Tim, the way I see it you are here to get permission to set ourselves in a position that we can act quickly?

Mr. Clougherty replied that is correct.

Alderman J. Roy asked the way that I look at it any contract is going to be looked over by legal before we actually enter into it.

Mr. Arnold replied we could certainly do that.

Mr. Clougherty stated just for clarification purposes, the type of contract that we are talking about entering into we already have entered into for this year. We are not entering into a futures contract; we are entering into a supply contract. The supplier would then be hedging on the futures market. He would be executing futures contracts. We are entering into a supply contract at fixed prices.

Chairman Lopez stated when you come in with your budget; show the difference on how much we are saving.

Alderman Shea moved to authorize Highway Department, working with the Purchasing Division, Finance Office and the City Solicitor to move forward with a supply contract for petroleum based products for FY2010. Alderman J. Roy duly seconded the motion. There being none opposed, the motion carried.

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

A True Record. Attest.

Clerk of Committee