

MINUTES } CITY OF PIKEVILLE

CITY OF PIKEVILLE CITY COMMISSION MEETING SPECIAL MEETING MINUTES NOVEMBER 11, 1997

The Board of Commissioners of the City of Pikeville met in Special Meeting on November 11, 1997, for the following purpose:

1. To consider discussion concerning Alliance Gas Company and take any necessary action

The meeting was held in the City Hall Public Meeting Room at 260 Hambley Boulevard, Pikeville, Kentucky.

There being a quorum present, Mayor Steven D. Combs called the meeting to order at Noon. Commission Members present at roll call were as follows:

MAYOR:	STEVEN D. COMBS
COMMISSIONER:	BILL BLACKBURN
	EUGENE DAVIS
	JOHNNY MOUNTS
	SHARON CLARK

City Manager Blackburn advised the Commission that the City of Pikeville saw a deficit in the Gas Fund of approximately \$370,000.00 (includes depreciation) during the previous year. In an effort to provide a reliable source of natural gas, Mr. Blackburn invited representatives from Alliance Energy Services to address the Commission. John McCord and Andrew Fellon, in a brief summary, told the Commission that Alliance Energy Services is a Louisville, Kentucky, based company, owned by Conoco, Inc., a subsidiary of DuPont. They are the largest supplier of natural gas on the Columbia Gas of Kentucky system, serving well over 100 accounts in Kentucky, including the City of Prestonsburg, the City of Salyersville, and Auxier Gas Company. It was explained to the Commission, that Columbia Gas Company bills the City a \$4.70/mcf charge and an additional transportation fee that ranges from \$1.20 to \$1.40 per unit of metered gas. The transportation fee is charged because the meter or "gate" is owned by Columbia Gas Company. To assist the City in making the Gas Fund self-sufficient, Alliance Energy Services presented three options: Option 1 would be to continue as is. A supporting analysis shows that if natural gas were supplied to the City under the current arrangement, the City would pay an additional \$91,000.00 over a 12 month period versus the cost of tariff gas. Option 2 provides for Alliance Energy Services to negotiate a transportation cost with Columbia Gas Transmission Corporation down to 12 cents per mcf, for allowing the City to utilize their meter. Alliance Energy Services would broker the supply of natural gas at a substantially lower price. With this negotiated rate, Mr. Fellon estimated the savings at \$100,000.00 per year. Should Columbia Gas refuse to negotiate, Option 3 provides for the City to either purchase the meter from Columbia Gas or to construct its own meter. The Commission discussed the feasibility of purchasing a meter since the City owns the property where Columbia's meter is currently located. The cost for a new meter ranges from \$150,000.00 to \$250,000.00. Alliance Energy Services would handle the supply and transportation to the meter as well as any balancing needed. Mr. Fellon estimated a savings of \$121,000.00. Mr. Fellon told the Commission that Alliance Energy Services could help in funding the installation of the meter, and when the debt is retired, title to the meter would be transferred to the City.

Mr. Fellon estimated that Pikeville is paying about \$216,000.00 more per year than their other comparable clients. Natural gas cost through Alliance would vary. Each year, the company will make a recommendation as to whether the client should lock into a rate for an entire year or only for a season. Being a part of a major producer of natural gas allows Alliance to have greater access to information which would be utilized in making the recommendation.

Mayor Combs stated his objective was to provide natural gas to the City's customers with no loss in flow and, if possible, no increase in rates. The potential for an increase in the rates was discussed, as City Manager Blackburn advised the Commission that gas rates had not been raised in an estimated 8 years.

Alliance Energy Services representatives advised the Commission of their opinion that Option 2 would be the best avenue. Their fee under this option would be 50% of the savings realized by the City and 3 cents per unit of gas used for the first two years and 3 cents per unit of gas used, thereafter. Alliance Energy Services will provide the natural gas supply; will work with the finance office to establish a rate for the city's customers; and will provide training for City personnel. Should the City choose to contract with Alliance Energy Services, the contracts with local gas suppliers will not be affected. It would be possible for the local suppliers to sell any unneeded natural gas to Alliance Energy Services, contingent upon the gas being of pipe-line quality. The burden to provide pipe-line quality gas is the sole responsibility of the local provider.

The natural gas supply contract with Columbia Gas of Kentucky was cancelled effective November 1, 1997.

At 1:00 p.m., Mayor Combs made the motion to adjourn to executive session for the purpose of discussing a legal matter concerning an existing contract for the purchase of natural gas. Commissioner Davis seconded the motion. The motion carried unanimously.

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At 1:20 p.m., Mayor Combs made the motion to reconvene to regular session. Commissioner Mounts seconded the motion. The motion carried unanimously.

Mayor Combs reported that the Commission had discussed the contracts with the local providers while in executive session.

City Manager Blackburn asked for a clarification concerning the percentage of savings fee. It was explained that Alliance Energy Services will compare the previous year to determine the savings. The 50% fee of the savings realized by the City is in effect for two years only and will be payable on a monthly basis. The 3 cents per unit of gas is a standard fee and will continue to be charged after the two year period.

Commissioner Davis made the motion to enter into a contract with Alliance Energy Services in the form of Option 2 of the proposal and along with that to adopt the 50% of actual savings fee arrangement (Section #4) as proposed and to authorize the City Manager to execute any purchase nominations or purchase requests as provided for in the contract. Commissioner Mounts seconded the motion. The motion carried unanimously.

There being no further business to come before the Commission, Mayor Combs made the motion to adjourn the meeting. Commissioner Davis seconded the motion. The motion carried unanimously. (Adjournment Time: 1:45 p.m.)

APPROVED _____
STEVEN D. COMBS, MAYOR

ATTEST:

KAREN HARRIS, CITY CLERK