

TOWN OF BLACK CREEK
TOWN BOARD MEETING

Date: March 13, 2007

Place: Black Creek Town Hall

Present: Mayor Howard Moore, Commissioners Seltzer, Godwin, Lucas, Smith, Franks

Absent: None

Quorum Present: Yes

Minutes Taped Yes

Mayor Moore: Meeting called to order. Meeting for March 13, 2007 is now in session. First thing is approval of the minutes of the last meeting. Motion by Commissioner Seltzer to adopt the minutes of the last meeting, second by Commissioner Godwin, all in favor say I, all opposed. Motion carried unanimously. Next thing is to pay the bills. Has everybody had a chance to look at the bills? Motion to pay the bills by Commissioner Lucas, second by Commissioner Godwin, all in favor say I, all opposed. Motion carried unanimously. First item on the agenda is Mr. Kevin O'Donnell, I think he's been working on some figures, and he's going to give us a rundown.

Kevin O'Donnell: First of all it's good to be here with everyone tonight. As you know I work in the utility arena in Raleigh. I love to come down here to Black Creek and get out of Raleigh. It's more than just seeing good friends, but also to get some fresh air. It's good to be somewhere where people do things for the right reasons. I've got 2 things to talk to you about tonight. The first is the sewer analysis, and the second is the power supply update. I'll get to the sewer analysis first because that's an easy one to go through. When I looked at the numbers that Earthtech did in regards to the sewer plan, the first thing that jumped out at me was the O and M cost. It was not the fixed cost, it was not the loan, the length of the loan, it was not the interest rate, and it was not the growth rate in the O and M expenses that Wilson had raised some concerns over. It was the actual O and M cost number. As it stands right now there are two components to our cost, if we move forward with the sewer plan. The first is going to be the fixed cost, and the second is going to be the O and M cost. I've spoken to a number of municipalities that have .65 mgb plans. I will tell you that none of them have land application plants. But the ones that I did speak to of similar size indicated that the O and M numbers that they have right now are already at least 25% higher than what Earthtech had used in their analysis. So I called Earthtech, and they said that they had gotten their number from another municipality that they had worked with. I was left to analyze what really amounts to a risk and returns scenario. And that is the risk that we're facing on these O and M cost and what is the level of potential benefits and or cost. So that's how I started my analysis. Let's assume for discussion purposes that the O and M cost in the analysis are roughly 25% to low. And let's see what that does to the break even point on the rates. When I

did that, you can see the graph over on page 3 of the power point hand out I did. It moves those break even points out for the 3% increase in Wilson's rates the break even point moved about 4 years from roughly 2015 to 2019. From the scenario of assuming a 5% annual increase from Wilson the break even point moved about 2 years from 2012 to 2014. At this point and time I need to say that the analysis that I'm going to be doing is not complete, but it has me concerned at this point on some of the O and M cost. If we're off a little bit on that it's going to have a fairly big impact. I understand from talking to folks at Earthtech that land application may have different O and M cost, than discharging into the river or something like that. So it's been hard for me at this time to find a truly comparable scenario. If I could go somewhere and find a .65 mbg plant land application that would be great. I could look at their O and M cost and feel confident. But we don't have that. So I go back to the point, what's the risk if we're off a little bit. That's where I came down to we're just going to have to run the numbers and say there is some risk there that the O and M cost may be a little bit low. The sewer analysis is preliminary at this point. I will present a final report hopefully within the next month. But that's the first thing that jumped out at me, the risk of the O and M cost.

Commissioner Godwin: What size is Elm City's land application?

Kevin O'Donnell: I don't know. That is not a town that I've contacted. It's not the town that Earthtech told me that they used as a comparable facility. The ones that I've talked to right now are clients of Nova. I just picked up a phone and called a few of them. That's what made me think if one of the towns is in the western part of the state and their .65, but it's discharged into a river, it's not land application. And he's already spending over \$250,000.00 a year on O and M cost for a single employee. Here we're looking at about \$200,000.00 for three employees. That's got me a little bit concerned, but then again as the folks at Earthtech indicated, yes, you may have more employees but you have less equipment to maintain. We're still working on it, but there are some points that have been raised that make me question things. As I said in the power point presentation on those fixed cost, we know what they are. You can calculate the concrete and steel, and you can calculate what that ratio is going to be. But what you can't calculate at this point and time is what those O and M cost are going to be. And that's what has me concerned at this point.

Mayor Moore: It's going to be something that's an ongoing thing too, it's not a one time thing.

Kevin O'Donnell: That's where we are. I'm not going to be able to be here on Thursday. I'm sorry, I told Barbara that I could be, but then I realized I'm committed to go to New York on Thursday, and I won't be back until Friday afternoon, so I'm sorry I'm going to miss that one. I'd rather be here, but that's a long story. Turning to the power supply project, let me tell you what we've done, because it's really a two step process. So far it's worked out quite well. Gary Davis and I went to West Virginia to meet with New Martinsville and The Harrison Rural Authority. I've got to thank Gary, because I almost killed him on the way up there. We drove across some Mountains and all of a sudden and unbelievable snow storm hit us. It was not a fun trip going up there, nine hours in a

snow storm is not something I want to do. We met with those officials from the three wholesale entities. Their contract is up about 16 months after our contract ends. The purpose of this meeting was to aggregate our loads with their loads and present a larger load into the open market. They understood that and are joined with us. They ended up using a consultant out of Atlanta, that's fine. We issued a joint RFP a week ago Thursday for a total of roughly 60 megawatts of power. Now in our group, meaning Enfield, Sharpsburg, Black Creek, Lucama, Stantonsburg, we're about 28 megawatts, but you throw the West Virginia group in there, and you're looking at 60 megawatts. The next step, after I issued the RFP, I wrote a press release, and I sent it to one publication, Megawatt Daily. All due respect to the local newspapers, they're not my target audience. My target audience was power suppliers. And they all read Megawatt Daily. It helps me understand where prices are going and so forth. So I sent it to them, they published it the next day on their e-mail. The phones started ringing off the hook. We currently have 14 different entities interested in perhaps serving us. We won't get 14 responses to the RFP. I'm expecting between 3 and 7. It's impossible to say, but I'm just tickled pink that we have that many responses. In talking to a couple of suppliers, they have said flat out that it's the larger load that they are interested in. I want to spring board this into growing the group even further. I've identified some towns in Virginia that I want to bring in. Again they can use whoever they want to, I just want their load. In the RFP we have specifically said what we are looking for, meaning our North Carolina towns is a contract as long as possible. We must have, because of federal requirements to keep our transmissions in place, a contract term of 5 years. We prefer a contract of 6 years 4 months, so that our contract terms will sink in perfectly with the West Virginia group. The next time we go out, instead of 60 megawatts, we have to have 90 or 120 to keep growing the group. So that in time, maybe 10, 15, 30 years down the road, probably long after I'm gone we'll have a really large group that we can issue a joint fee for. Those two steps worked out well so far. We will know on April 13th what our final cost is going to be. That's when final responses are due. If you turn over to the last page, we've been talking about what's going to happen for the last two years now. We know our wholesale cost of power is going to go up, that's a given. I'm expecting seven to seven and a half cents per kilowatt hour. We're paying a little bit less than five cents a kilowatt hour now. We raised rates 10% this past summer. We're continuing to build that fund; hopefully it's going to be a sufficient size. I'm estimating roughly \$350,000.00. Assuming we do another 10% this summer, and then 5% after that. Then we can pair down on the rate increases, and live off the rate stabilization fund for as long as we can. If you look at the prices in the wholesale power market, they are tending to come down after the year 2008. So hopefully somewhere around 2010 when this fund goes to zero, our wholesale cost of power is going to come down, and we'll meet somewhere in there without having to raise retail rates a lot more. That's where we are, it's a work in progress. In regards to Dominion, I can tell you that I have worked harder with that company than I have any other power supplier in my life. I've done everything I know, and contacted every person I know in Raleigh, Washington and everywhere else to try to get them to see things a little bit differently than how they have seen them in the past two years. They've got a different mind set than they did four years ago, when we signed the most recent contract with them. A lot of the people, if not all of the people that we worked with years ago are no longer with the company. It makes things a little bit tough on me, because I'm

basically having to educate a whole new group of people to be brought in. We're working some different angles; I'm supposed to go up to Richmond the 22nd of this month to meet with some folks on government affairs up there. Ideally, if we can work out an agreement with them, and continue to take service with them it's perfect, it's easy, and it's what we've had for 10 years. They are not obligated to serve us, going forward. In the wholesale power markets right now there is no obligation to serve any wholesale customer. Even if a town has been a customer of Duke Power for 30 years, there's no obligation to serve. It does happen. The three West Virginia entities that we're dealing with now, New Martinsville, Filipi, and Harrison Rural, they used to take power from Allegany Power when they went out with an RFP 4 years ago, 3 years ago now Allegany said no. They had been serving them for decades; Allegany said we're not interested. The same thing happened to North Little Rock Arkansas. So it's important that we get as many suppliers interested in us as possible. I'm confident and happy that we've got 14 right now. You can't depend on a single supplier. There's no legal obligation if they choose not to. But I can tell you from a business stand point, it makes no sense what so ever not to serve customers in wholesale market. You earn a whole lot more money in wholesale service than you do in regular retail service. That's part of the problem that I don't understand with Dominion right now. I think things are looking good, I'm just thankful that we got a fixed rate contract and we started making preparations a year and a half ago. We're in a good position going forward. When everything is said and done I expect our rates to be somewhat comparable of CP&L. That's all I have, if anyone has any questions I'll try to answer them.

Commissioner Seltzer: You said that you saw the long range rates forecasted were going to be turned back down again. Is that because of the changing energy sources?

Kevin O'Donnell: No, I think it's more a case of supply and demand related to natural gas. Our electrical prices are correlated 100% to natural gas. The thing that we can do locally to get our electrical prices under control is do a lot of drilling off the eastern seaboard. The environmentalists are not going to allow that. It took an 11th hour move to drill off the west coast of Florida at the last congressional session. It literally passed at 2am. That more than anything is what we need. Those natural gas prices right now are horrendous. It used to be working with my industrialist if we saw prices above \$5.00 we'd be doing short contracts all the time. Prices never go above \$5.00. They went up as high as \$15.00 when Katrina and Rita blew through. And now they are consistently between \$7-\$9.00. It's the same with propane and coal, and everything else.

Unfortunately we're going to have to get used to higher prices, and there is not a whole lot any one can do about it. One other thing I'll leave you with is we did this RFP as soon as possible. Once we got that West Virginia group in the RFP was issued in less than a week. I've set some pretty strict time lines to try to get the contracts done. Part of the reason for that is I do not want to come anywhere close to hurricane season. I want this thing settled by the summer, because I'm a worrier and I like my sleep. I do not want to be getting up at 2 or 3am and running down to the computer and checking how that thunderstorm in the Antilles did right before I went to bed. What happens is a little thunderstorm pops up into a major hurricane and the next thing you know it's heading for the gulf. Then we're all in trouble. Unfortunately it's starts in June, so we'll see. I hate

to say this, and I know some people here in NC have beach front property, but from an economical stand point its better if it comes up this way.

Mayor Moore: We appreciate you coming and look forward to hearing from you again soon. Tonight I have the honor to acknowledge a special person here in Black Creek. The town board and the town employees would like to express our gratitude to this special person. She has given her time to the town for the Heritage Day planning, park committee and any other job that requires a leader. The board would also like to express our appreciation for the hours and time she has given so freely over the years. This person is special because she enjoys giving and working with others. This person is definitely the best. The person I'm talking about is Ellen Dawson. Will you come up Ellen? Please accept this plaque as a token of our appreciation for the hours and time and service to the town. We want to thank you for helping to make it a better place to live. Let's see, commissioners business is next. Commissioner Lucas do you have anything?

Commissioner Lucas: The only thing I have is that Barbara has been to some schooling lately and she's enjoying it and I think it's going to pay off. She got recommended to go and I thought that was real nice for her to represent the town. That's a big honor for her and the town.

Mayor Moore: Commissioner Franks do you have anything? Mr. Godwin?

Commissioner Godwin: The only thing is Greg is going to stay on top of the repairs over on the sewer line that they're putting in on FPCR. We're hoping to get some people satisfied over there that have a few concerns. I don't know of any electrical things that we're fixing to under take right now. We are getting ready to do Mercer St? I am from Missouri, show me.

Commissioner Seltzer: Have we entertained possibly maybe putting some of that underground?

Mayor Moore: I think it's a good thing to put it under ground, but our filtration plant is a bigger priority right now. Commissioner Seltzer states that he understands that it is not feasible right now. Superintendent Gates states that it would be if it was a subdivision. But we do need to keep it fresh in our minds and start progressing that way.

Commissioner Godwin: How about on Charles Street, would that be feasible. You are going to have to start somewhere. Greg states that there is probably going to have to be some workshops on this because there's going to be more than just burying under ground. The phone and cable people just don't put their stuff in the ground for you. It's not going to be free. All the electrical services are going to have to be changed from overhead to underground.

Commissioner Seltzer: We will have a surplus fund hopefully to use if rates ever do curtail back. It's something to keep in the back of our minds, which would be money that could be used for that.

Commissioner Godwin: I know this next item is in the Water Dept. The water line on Mercer St. is in line after the electrical. I didn't know if Mack knew that was in the works to do. That's all I've got.

Mayor Moore: Mack, do you have anything.

Greg Gates: May I say something? That is the last galvanized water line in our entire system.

Mayor Moore: I did get complaints about that stale water over there.

Commissioner Seltzer: I was asked a question. I'm going to throw it to the board. Someone said that they thought the improvements to the front of the town hall were good. I've talked to you Greg about this and you thought the same thing that I did, that the roads were pretty good. Sidewalks we know are an issue but the roads that have issues are the state roads.

Greg Gates: You're talking about the road here in front of the town hall, and it's a state road. The only thing that's going to help is milling it down. It's not going to be just overlaying it. You are going to have to mill that road down. Even at the fire station if it gets any higher we're not going to be able to get the fire trucks out of there. It's going to be one of those things that the board needs to approach them to look at it. All of it wouldn't have to be milled. I would think that you could go ahead and start looking into it.

Commissioner Seltzer: I make a motion that we go ahead and send a letter off, it won't hurt. Get it started because when we send that letter that's the start of our documentation.

Mayor Moore: Motion made by Commissioner Seltzer to inquire to the state about paving the street. Second by Commissioner Godwin, all in favor say I, all opposed, motion carried unanimously. Motion made by Commissioner Seltzer to replace the town street signs at the major entrances to Black Creek, second by Commissioner Godwin, all in favor say I, all opposed. Motion carried unanimously. There will be four signs and they will be nicer signs that what is there now. Greg will get something drawn up and then bring it back for everyone to see. Greg do you have anything?

Greg Gates: This smoke test on the sewer system that we did last week, we found approximately 40 sewer cleanouts that were below grade and leaking. All but four have been repaired, and the four that have not been repaired are major cleaning issues that the homeowner is going to have to take care of. That was done free from the NC Rural Water Association. All we had to do is purchase the smoke that the man used. That was his machine and truck. It's still no substitute for a camera, as the water table drops in the ground; I think we could probably have him back for a day. As far as the outfall line we didn't even attempt to carry it down there because there's so much water, and smoke is not going to come through water. The only way you are going to know what's going on

there is with a camera. You've got to start somewhere and naturally I would say start in your wettest area. It's going to be a joint venture with Lucama. That's pretty much all I have in the sewer. All they lack on the water line project is there's four side streets that's got to be tied in. And the issues that we're having with the railroad, that's probably going to have to come to a meeting. What they've got to do over there would only amount to about three days of work. It's just a matter of getting everybody to agree what has got to happen with the railroad tracks.

Commissioner Godwin: I want to ask Greg one thing. On the back hoe, where do we stand on that? Greg states any time, it will be here before the end of the month.

Mayor Moore: Ms. Aycock, do you have anything? Joe do you have anything? Candy, do you have anything? I guess everyone can see at the restrooms that the outside walls are done and the plumbing is in and has been approved and they should finish the inner wall tomorrow. Then we just start putting the top on it. Does any one in the audience have anything? On March 15th we've got a sewer authority meeting at the community building from 6-8:30. Ms Aycock is going to leadership training in Raleigh the 28th-30th and that's a big honor for her and for the town. There's CPR recertification for the town employees the 27th from 9 till 12:30 at the town hall. Motion made by Commissioner Godwin to adjourn, second by Commissioner Lucas. Meeting Adjourned.