

MONDAY – 5:30 P.M.

MAY 29, 2007

WORK SESSION

The City Council of the City of Elizabeth City held its monthly work session on the above date and time in the City Council Chambers of the Municipal Administration Building with Mayor C. L. Foster presiding. Council members attending were: J. M. Baker, M. E. Brooks, L. A. Hummer, B. S. Meggs, D. K. Stallings, J. A. Stimatz and J. B. Walton. Councilman E. K. Rivers was absent. Staff members attending were: City Manager R. C. Olson, City Clerk D. S. Pierce-Tamplen, City Attorney W. H. Morgan, Deputy Clerk V. D. White, Finance Director S. E. Blanchard, Planning Director J. C. Brooks, Parks and Recreation Director J. D. Overman, Assistant Public Works Director L. Brothers, Police Chief C. Crudup, Fire Chief W. C. Pritchard, Inspections Director S. E. Ward and Electric Superintendent K. F. Clow.

Mayor Foster opened the meeting by welcoming those attending. He gave the invocation after which City Manager R. C. Olson led the Pledge of Allegiance to the Flag of the United States of America.

1} APPROVAL OF THE AGENDA:

Mayor Foster called for action regarding the prepared agenda.

A motion was made by Councilwoman B. S. Meggs, seconded by Mayor Pro Tem L. A. Hummer to approve the agenda as presented. Those voting in favor of the motion were: Meggs, Hummer, Baker, Brooks, Stallings, Stimatz and Walton. Against: None. Motion carried.

2} PRESENTATION – POWER SUPPLY STATUS:

Mayor Foster called upon City Manager for the introduction of Mr. Ken Raber who will be addressing an update on our power supply status.

City Manager Olson stated that we have with us tonight Ken Raber who is the Senior Vice President for the North Carolina Northeastern Power Agency, which is the agency where we purchase a lot of our power from. Ken has appeared before the City Council numerous times over his twenty plus years with the Agency. He is going to give us an update concerning our power supply and what some of our costs are as well as some of the issues within the industry.

Mr. Raber stated that the power supply industry has a lot of challenges. He wanted to go over some of the things that we are going through at this time. He presented a power point presentation showing what they go through when developing the power agency budget. There are only four basic components of the basic costs. They are debt service, project operating costs, Power Agency Services and Supplemental Power costs. Our debt is not like a home mortgage as it does not stay level all the time. You have ownership interest in five plants. The debt on those plants change from time to time. The debt on the Power Agency is about \$640 million. There is not a lot of opportunity there. If refinancing opportunities come up we will take advantage of it, but the bottom line is that they do not have a lot of opportunities with our debt at this point. We have two public power utilities. We owned generating substations and we subcontract what we need when we fall short.

Our project operating costs are the cost and maintenance of our plants. Under our contracts we have approximately 15% ownership in those five plants. We are responsible to pay our share of the labor, tools, capital and everything that goes on to operate that plant including the fuel is allocated to us through our contract with Progress Energy. We don't have a lot of control over those costs. What we do is to review those costs. That is a little less than two hundred million. We look very careful at these costs.

At this point he explained the purpose and obligation of the Power Agency toward its members.

The ownership in the plants does not cover everything that you need. It is about 75% of the energy and about 50% of capacity. 25% is provided by Progress Energy through a fixed contract. No matter how much you need they are required to provide it though this contract. The same no matter how little you need. You do not have a minimum or maximum. You only purchase exactly what you need. Never does our ownership exceeds what you need except on very slight occasions in the spring and fall during the middle of the night. When we look at the controlling costs we look at do we have the opportunity to refinance, we look at the ownership in our plants and buildings and lastly when we negotiate our power supply contracts, what are the opportunities to reduce those costs.

Also as part of your costs is the Power Agency Services in Raleigh and we are the only like organization in the country that has these organizations under one roof. We have a sister agency in the west, North Carolina Municipal Power Agency Number One. We have to have a staff to run the business of the utility. Someone has to do what he does which is work on the wholesale rates. You decide what level of staff that you want.

All of the above costs are roughly \$630-\$640 million a year.

The other side is the revenues. We have two places where we can get revenues from. The largest rate relates to revenues which is our bills to Elizabeth City on the tenth of every month. Over the years when we negotiate this deal and we were supposed to have four plants what we had contracted for was more than what we needed so we negotiated with Progress Energy was that we would sell back one third of the output from the Harris Plant. The benefit of that was that we sold it back to them as if they owned it so it was a benefit to us. We make more money selling back our output from the Harris Plant than we do buying. That goes away at the end of this year. That is a net benefit to us at \$15 million. We have enjoyed that benefit since Harris went on line in 1985. It was a fixed term negotiation and it goes off at the end of this year. At the beginning of next year we have to find \$15 million in revenues. Don't take that as you are going to have a rate hike.

The process of setting the rates is not something that we do at Electricities. We have a rate committee that consists of ten members throughout the agency. We have a Rate Committee Meeting virtually every month. We make presentations with considerable more detail on these costs, projects and forecast. We give the Rate Committee options of what it takes to keep the Agency solid recognizing these are the same people on your staff that want the rates to stay as low as possible. After the Rate Committee reviews it then it is presented to our Board of Directors. Our Board of Directors of Electricities has six representatives from the eastern part of the State and six representatives from the western part of the State and two representatives that are from Electricities. We have a total of fourteen members. They look at the review and evaluate the Rate Committee's recommendations. They either accept or reject it. They have rejected it and sent it back to the Rate Committee for further consideration. If the Board approves it then it goes to the Board of Commissioners for review. Under the Statutes the Board of Commissioners can reject the rate if they do not agree with it. That has not happened yet and partly because of the involvement before it gets to them.

He then went over and explained the cost of coal from 2003 to 2007. The same thing that is happening with nuclear is happening with natural gas and you can see it at the gasoline pumps. Prior to 2003 coal cost about \$25 a ton and stayed this cost for many years. We are restricted to the mines that we can buy from because our plants require a specific kind of coal called low sulfur and that is a little more expensive. Back in the old days we could buy coal for \$25 a ton and about five dollars for shipping. Coal started to escalate in 2004-2005. We saw it go from \$25-\$35 to \$65. You can't get it and you need it you are going to pay what you have to pay for it to get it. We have enough coal but the economy is price driven. When you see the cost of coal getting up to \$65 a ton a lot of

people would like to be in the coal business. Now you can open mines that were not feasible. Now you are getting more coal on the market. Supply and demand is going to tell you that coal is going to start dropping again until those mines that are not economical start closing again. You are going to see coal constantly go through the cycle. We have not seen this type of cycle ever where it is going up as high as \$65-\$70 and drop to \$45-\$50. We are not finished with coal. You still have to get coal from the mines to the plant. We are captive rail. That means there is only one rail that serves our plant. Coal transportation costs about \$4. in the early days. Then it went up to \$6.00 and we started getting concerned. Then it went to \$8. The utilities actually started filing lawsuits against them when it reached \$12. Today it is running about \$20 a ton. Every time the price of oil goes up the price of transporting that coal goes up. That is what we are experiencing. What you are seeing at the pumps, we are seeing at delivering our coal to our facilities. So, even though the price of coal might be coming down, the price of transporting isn't. If coal is coming down we have a fuel adjustment rider and we want to know when that is coming off. The short answer is no time soon. What happens when you buy coal you don't buy it at a certain price, but you hedge it. You are going to buy contracts over a long term because you can't take the risk of coal going up 30-40% because you have a very hot summer or very cold winter. We are still seeing the contract prices so even though coal went down the first few months of this year, Progress Energy has a long term contract. They are not buying into the stock market. They negotiated these contracts back in 2005-2006. That is the first part of our fuel costs. As he told you earlier we are 65% nuclear. We are heavily relying on how well those plants run. Our nuclear plants are some of the most efficient and reliable run in the country. They do have accidents. What we experience in 2004 was during the summer the Brunswick Nuclear Plant had both units down at the hottest time of the summer following Hurricanes Katrina and Rita. So, we had a double whammy. It costs about a penny and half to get energy out of a nuclear plant and it costs about three and half cents to get it out of a coal plant and more than ten cents to get it out of a gas plant. If our two largest plants in our system are down and coal plants are running at full capacity, you start generating a lot of energy from gas plants. Gas has done the same thing that coal has done. It used to run about \$2.50 a unit but then it went up to \$4 or \$5 a unit we said that was unbelievable. It settled out at about \$12 a unit a few years ago. After Rita and Katrina it spiked to over \$20 a unit. What we are looking at right now is making sure that we maintain an adequate supply of reserves and looking at long term costs. He believes that we can weather this. It has been hard on all that is involved in the energy business to deal with these fossil fuel prices.

He then presented an overview of the outstanding debt of the NCEMPA. The total debt of the bonds is \$2,666,315.00 at a weighted average interest cost of 5.635%. The projected annual debt service is until the year 2026.

Finally he briefly discussed the outlook. He discussed the challenges such as renewable portfolio standards, global climate change, plant operations, fuel costs and hurricanes. He also went over some of the opportunities such as rate stability, the Brunswick License Extension, the Harris License Extension, a lower debt service and plant operations.

Mr. Raber then conducted a brief questions and answers period.

2} POLITICAL CAMPAIGN SIGNAGE:

Mayor Foster called upon City Manager Olson for comments.

Mr. Olson stated that over the past several elections, location and placement of campaign signs have been a concern both for the candidates and the City. Staff was asked to investigate the possibilities of using city owned properties as potential locations for candidates to post their signs. Staff has identified eleven owned properties along major traveled streets throughout the City. While the UDO allows for campaign signs to be posted on private property and typically posting of signage is a function of zoning regulations. He called upon Planning Director Brooks for further comments.

Planning Director Brooks stated that as Mr. Olson indicated staff has basically searched all city properties to find out which properties may be good locations for candidates to post their political signs. We have found eleven sites. She presented an overview of the eleven sites. What they tried to do was to identify city property in each of the voting wards. We are proposing that you limit the size of the signs to 32 square feet and six foot in height. Each candidate would be allowed to post one sign on all of these eleven designated sites. If you know of another site that staff has overlooked, she would be glad to take a look at it.

Councilman Stallings said that he would like to add two new sites in the Third Ward. One is between Ehringhaus Street and Hughes Boulevard. The City owns some property when you come out from Oxford Heights where the transfer station is located. That would be a good location for campaign signs. Then when you make a left where Northeastern is at, there is a park where Jim Overman put together a couple of years ago.

Councilman Stimatz asked if you had talked to the County about this. Is this only for the city election? He has a problem with the size. He does not see where you need a six foot sign. He would also like to see Knobbs Creek Recreation Center added to the list.

Ms. Brooks replied that what we are proposing is for any election.

Councilwoman Meggs asked what the penalty would be if they put them someplace else or do not go by the ordinance.

Ms. Brooks said that you can put them on private property but if you place them within the right-of-way Code Enforcement would pull them up. She thinks that was the issue that prompted the whole thing about us looking for other property.

Councilwoman Baker stated that she had a question regarding the 45 days before an election. Is that on the early voting date or the posted October day?

Mr. Olson replied that it would be the Election Day itself.

Councilman Brooks asked then what you are saying is that during the early voting what is the time frame that you can put the signs out.

Mr. Olson stated that it is 45 days prior to the date of the election. If you have a primary election which we always do it would be 45 days prior to that event.

A motion was made by Councilman J. A. Stimatz to accept the staff's recommendation to call the public hearing on the 12th of June to receive input about this ordinance. Councilwoman B. S. Meggs seconded the motion. Those voting in favor of the motion were: Stimatz, Meggs, Baker, Brooks, Hummer, Stallings and Walton. Against: None. Motion carried.

Mr. Olson said that for a point of clarification that in the proposed ordinance we have listed proposed sites. We have three additional sites that have been recommended. They are the Knobbs Creek Recreation Center site, the Holiday Inn lift station site and the Northeastern High School. Is it the Council's intention to add those to the list of eleven and then we would have fourteen. How about the issue of the size of the sign? What he would like to do is bring back an ordinance to you all that reflects what we have here.

Councilman Walton said that Ms. Brooks brought the list up and it wasn't conclusive to tonight's conditions. We can bring up more conditions and you can put it in the ordinance we could still vote on it. He still thinks that the sign is too big.

Mr. Olson said then we will look at bringing it back to you as a smaller size sign and if members of the City Council have identified other city owned property we will include them in the ordinance before the public hearing.

Councilman Stimatz suggested signs be limited to no more than 2x4 feet and less than 3 feet high.

3} ADJOURNMENT:

There being no further business to come before the Council at this time, Mayor Foster entertained a motion for adjournment.

A motion was made by Councilwoman B. S. Meggs, seconded by Councilwoman J. M. Baker to adjourn the meeting. Those voting in favor of the motion were: Meggs, Baker, Brooks, Hummer, Stallings, Stimatz and Walton. Against: None. Motion carried

Mayor Foster adjourned the meeting at 7:00 p.m.

Dianne S. Pierce-Tamplen, MMC
City Clerk

Charles L. Foster
Mayor