

**NEW JERSEY SUSTAINABLE ENERGY JOINT MEETING
OPEN MINUTES
MEETING OF January 7, 2011
CONFERENCE CALL
1:30 PM**

Meeting called to order by Chairman Richard Brook. The Open Public Meeting Notice was read into the record.

ROLL CALL OF COMMISSIONERS:

<u>State Rep.</u>
William Close, Town of Dover
Charles Cuccia, Saddle River
Lyn Evers, Piscataway Twp.
Thomas Nolan, Brielle Borough
Richard Brook, Florence Twp.
Joan Leanord, Collingswood
<u>Alternate Rep.</u>
Greg Poff, Rockaway Twp.
Greg Franz, Edgewater Borough
Michael Gianforte, Two Rivers Water Rec. Authority
Linda Dougherty, Edgewater Park Township
Terry Shannon, Barrington

Present from the above group were: Richard Brook, Tom Nolan, Bill Close, Lyn Evers, Micheel Gianforte and Greg Franz.

APPOINTED OFFICIALS PRESENT:

Executive Director/ Administrator	PERMA Risk Management Services	James Kickham	Present
Attorney		James Maley	Absent
Treasurer		William Garofalo	Present
Energy Consultant	The BSG Group	Fred Fastiggi Bob Gerard	Present Present

Also Present:

Tara Pasca, BSG

Steve Sacco, PERMA

Mark Worthington, BSG

Jim Johnson, BSG

EXECUTIVE DIRECTOR'S REPORT:

Natural Gas Auction- We will have a discussion regarding our upcoming natural gas auction and the game plan moving forward for the members of the NJ SEM.

GAS Auction time line- The following is a list of dates and events leading up to our auction:

December 20, 2010:	First Opt out notice sent
January 7, 2011:	Set strike price (will need meeting to set)
January 10, 2011:	Second opt out notice to membership
January 18, 2011:	Opt out closed
January 28, 2011:	Bid opening

A discussion took place on our upcoming auction and the dates associated with same. It was concluded that to be in accordance with the public contracts bidding law, we would have to send our strike price notice on January 10, 2011. The opt out notices will have to be received 5 business days later or January 18th due to the MLK Holiday being on the 17th.

Our bid opening will take place in Piscataway on January 28, 2011.

BSG also explained to the Executive Committee that the suppliers have indicated that they would prefer a paper bid rather than an electronic bid for gas this time around. This would also be advantageous to the SEM as we would not have to send any fees to the auction house and the SEM would be able to retain those amounts.

BSG also indicated that Hess was struggling with our gas profile and the number of accounts that the SEM had.

The Executive Committee also reviewed BSG's recommendations for a strike price for both 12 and 24 months. The strike price for 12 months will be \$7.30 and \$7.51 for 24 months.

These recommendations and explanations can be found in BSG's report, which will be made part of these minutes.

If the SME is not successful in receiving a bid below our strike price, we will start the process over and re advertise the notice.

MOTION TO ACCEPT BSG'S RECOMMENDATION OF STRIKE PRICES FOR BOTH 12 AND 24 MONTHS AS OUTLINED

MOTION:	Commissioner Cuccia
SECOND:	Commissioner Nolan
VOTE:	Unanimous

The next meeting of the SEM will take place on 1/28/11 at 10:30 am in Piscataway.

Return of membership fee- Each member of the NJ SEM received a \$300 return of their original membership fee. The checks were will received by our membership.

Treasurer:

Mr. Garofalo referred to his report contained in the agenda and asked for a motion to adopt the bills lists as presented.

MOTION TO ADOPT RESOLUTION 6-10, THE SEPTEMBER BILLS LIST IN THE AMOUNT OF \$11.90

MOTION TO ADOPT RESOLUTION 7-10, THE NOVEMBER BILLS LIST IN THE AMOUNT OF \$52,827.55

MOTION TO ADOPT RESOLUTION 8-10, THE DECEMBER BILLS LIST IN THE AMOUNT OF \$21,263.76

MOTION:	Commissioner Evers
SECOND:	Commissioner Nolan
VOTE:	Unanimous

MOTION TO ADJOURN

MOTION:	Commissioner Close
SECOND:	Commissioner Evers
VOTE:	Unanimous

Meeting Adjourned: 2:15 PM

Respectfully submitted,

Prepared by S. Sacco, Assistant Secretary

**New Jersey Sustainable Energy Meeting
Briefing Paper for Scheduled Executive Board
Conference Call of January 7, 2011**

Introduction

The New Jersey Sustainable Energy Meeting is currently providing natural gas service to members who have elected to participate in the initial January 2010 aggregated solicitation. With a term running from April 1, 2010 to March 31, 2011 this contract covers 94 SEM members, representing 750 accounts. The twelve month contract covering both the commodity and interstate transportation (basis) portion of gas service, was implemented as a result of an automated reverse auction that occurred on January 22, 2010. As this contract approaches the end of its term, SEM leadership must decide how it wants to approach member gas supply needs starting on April 1, 2011.

What Happened in 2010?

Timing worked against the SEM with its first supply contract as the spot price for natural gas dropped over \$2.00 per million BTU's (or dekatherm) of natural gas, from the time the initial contract was consummated in January of 2010 to the beginning of the April contract start. This was a result of increased production from new sources of natural gas, easily replenishing storage drawn down during a relatively cold winter, coupled with a continued slow US economy.

From mid-Spring throughout the Summer, prices rose slightly, presumably on the strength of increased fuel demand from electric generators during an extremely hot summer, only to drop back again in the fall to near eight year lows. Since the low in November to the present, gas prices have increased slightly but futures are still running around \$1.50 - \$2.00 lower per dekatherm than they were for the corresponding contracts this time last year.

During 2010, the natural gas market was dealing with a surplus of supply and generally stagnant demand which put downward pressure on pricing. Storage levels going into the contract were at record highs and despite a relative cold winter heating season, increases in production driven primarily by new producing reserves located in the shale regions of Texas, West Virginia and Pennsylvania tended to offset the supply draw down during the winter months. A weak domestic economy contributed to softening demand for energy (both fuels like natural gas, and electricity which is generated in large part by fuels). Finally, during 2010, many speculators maintained large uncovered net short positions (indicating their belief that more price downside exists) putting downward pressure on natural gas spot prices.

During 2010 as spot gas prices approached recent historical lows, they were reaching a cost that was comparable to that of coal for fuel users such as electrical generators and large industrial users. This price convergence between the two fuels seems to be indicating the bottom for natural gas levels because as natural gas dropped to a level close to that of the delivered price of coal, it did not break through but instead tended to spring back up. These natural gas price recoveries were not radical but rather were gradual until ongoing supply and demand factors created another natural gas imbalance beginning another cycle of price decrease until natural gas spot pricing hit the downside limit which is seemingly set by coal. It is too early to definitively say that a reliable price relationship is established between coal and natural gas but it bears watching to see if the floor setting characteristics of the coal pricing structure, hold for natural gas.

At this point, storage levels remain at record high levels as we are in the midst of the winter heating season. Initial forecasts for a relatively mild winter in the northeast have given way to relatively cold temperatures in December into early January but long term weather forecasts indicate a return to moderate temperatures for the balance of the winter.

Drivers of Natural Gas Pricing

There are a variety of drivers of natural gas pricing levels which fall into the short and long term time periods. The price of natural gas is affected by many factors such as weather, economic activity, price of competitive fuels and availability of supplies. Depending upon the strength and timing of these factors, the price of natural gas can increase or decrease dramatically.

Natural gas is for the most part, a domestically produced commodity. The Gulf region, Southwestern states, the Rocky Mountain area and the Appalachian Mountain area are the main production areas within the United States. For the northeast region where the SEM membership resides, the Gulf and increasingly the Appalachian shale regions are the important production areas. Canadian imports provide additional supply but the majority comes domestically.

Once natural gas is released from production areas it is delivered by a pipeline system to customers. Production and transport of natural gas are relatively constant throughout the year, and as such fluctuations in demand are dealt with by injections into, and removals from, storage.

Storage can be at the site of production, along the transmission pipeline network or near the place of use. Storage fields are usually built from depleted natural gas production formations, salt caverns or large aquifers. Long term supply can be increased by locating new sources of gas and adding more production capacity and pipelines but in the short term, fluctuations in demand are usually met by additions or subtraction from storage.

Since natural gas storage is so critical in balancing the demand for natural gas, it is considered by many to be the most important supply side factor in determining the near term price of natural gas. Other important short term supply and demand factors which determine price include: Weather and more specifically, temperature as well as weather disruptions affecting production like hurricanes, and; speculative trading.

Long term factors include the US economy and economic activity levels, gas production levels (number of producing rigs, efficiency of rig production mix, depletion levels for rigs in operation and new discoveries), the price for alternative fuels like oil and coal, and the level of utility gas storage contracts or hedging activities.

Supply / Demand Factors for 2011+

Working gas in underground storage continue to be at historically high levels when compared to five year minimum and maximum ranges. While normal winter withdrawals are expected to reduce storage levels throughout February and March of 2011, it is expected that injections starting in March will quickly offset these withdrawals bringing storage levels back up to historically high levels by June. This would suggest stable or perhaps declining natural gas pricing in the early part of 2011 but there are many supply and demand factors suggesting upward pricing pressure on the horizon.

Chief among these are anticipated improvement in the US economy accompanied by an increase in economic activity and natural gas demand for electrical generation and as fuel for industrial uses and processes. Demand for competitive fuels like oil and coal should also increase with improved economic activity which will place additional upward pressure on gas pricing.

Many also believe the recent increase in gas production from shale producing areas will tail off temporarily as the low price of gas doesn't justify the continued high cost production from these relatively fast depleting reserves. While these shut-ins may be temporary, as these rigs are taken off line, injections into storage will probably diminish slightly. Many argue that shale rig operators have only been producing during this period of low gas pricing because they were looking to protect their land rights which may have expired due to regulations if the reserves were not actively producing. Once these regulations have been satisfied, if low pricing persists, an operator may have no incentive for producing from these high cost reserves. Additionally,

there is the possibility that increased environmental attention on shale production may introduce regulations which will further increase cost of production from these reserves.

In general there seem to be more supply and demand factors suggesting moderating but nominal and consistent increases in gas pricing, primarily attributable to improved economic activity.

This slow movement upward is expected to occur in mid 2011 but there does not seem to be any overwhelming indication that between January and mid-year that prices will have a reason to move significantly lower than where they are now.

Attainable Natural Gas Prices Today for 12 and 14 month Terms

Supplier contracts for natural gas covering a future span are based upon the current monthly market price for futures contracts which correspond to the desired term of the contract. Today, futures contracts for a particular month are running from \$1.50 to \$2.00+ per dekatherm less than pricing for those same contracts this time last year. For example, the April 2011 futures contract is currently around \$4.34 while last year at this time it was priced at \$6.14, a difference of \$1.80.

January 2012 is currently priced at \$5.14 whereas last year it was priced at \$7.15.

Using today's future prices we are projecting that a 12 month strip price for the April 2011 – March 2012 term could be done at \$4.89. Adding expected basis (pipeline transportation) and the retailer margin and SEM backend fee to this, would give us a target price of \$7.30 before tax.

For the April 2011 – March 2013, the 24 month strip is around \$5.08 and adding basis and margin to it, we would project a target price at \$7.51 before tax.

We believe that while there may be some room for slight downward movement in the very short term, the underlying supply/demand factors will begin to push natural gas pricing higher in the very near future and it will likely continue a slow, but steady increase into the 20112-2013 time frame as the US and World economies pick up steam. We do not expect radical sustained increases to levels experienced as recently as July of 2008, but we do expect a slow grind upward owing to the influence of the supply and demand factors previously discussed.

Recommendation

It is our recommendation that the SEM cover both the commodity and basis portions of its upcoming natural gas needs for a period of 24 months. In the past we have considered covering basis only and letting the commodity float, locking in when it reaches some specified trigger point level but we believe there is more upward influence on pricing currently present and that, coupled with the fact that futures prices while higher than they were last November, are still at relatively low levels by recent historical standards.

As basis is historically much more predictable than commodity prices, and it is currently too at attractive levels, the SEM might want to consider taking an extended basis contract for 36 or even 48 months, covering the commodity for a minimum of the 24 month period.

Additional information expanding upon these observations are included in the power point presentation previously distributed to the SEM Executive Board. We encourage any questions or inquiries related to these matters and are ready to address them at your convenience.

January 7, 2011

Frederick G. Fastiggi, CEM

Birdsall Services Group