TO: ALL SEM MEMBERS

FROM: RICHARD A. BROOK, CHAIRMAN

DATE: JANUARY 11, 2010

RE: SEM REPORT – NATURAL GAS AUCTION

As you are all aware, the Sustainable Energy Meeting (SEM) was formed to address the rising costs that we all face as a result of unstable and often rising natural gas and electricity bills. The cost of natural gas fluctuates all the time and we pay the monthly expenses with no guarantee of price stability or price containment. The SEM's primary goal is to harness the buying power of many public entities working together so that we can achieve price stability and ultimately lower our utility operating costs over the span of time related to the auction contract. The SEM is preparing to go out to formal auction for natural gas on January 22nd and then for electricity in the spring of this year.

In general, it is fair to state that we all consume much more electricity than natural gas. It is anticipated that the purchase of electricity through the SEM in the spring will result in a more quantifiable dollar differential in our favor because of the sheer volume associated with the SEM's collective electricity usage and the way electricity rates are struck by the Board of Public Utilities (BPU) each spring. However, the cost we pay for natural gas fluctuates all the time and it is as unpredictable as the weather. Natural gas is purchased in what are called dekatherms. Our ability to purchase natural gas (and electricity) in such large volume should improve our purchasing power and benefit all SEM members over the life of each contract.

As we approach the January 22nd auction for natural gas, and the point where each member of the SEM has to decide whether to participate in the auction or opt out, here is a concise overview of the how the SEM is proceeding.

- There are several charges that comprise the natural gas bill we receive every month. The SEM only has legal authority to address two (2) components of that bill, but they are the parts of the bill most given to fluctuation and increases. The two (2) components the SEM focuses on in order to control and try and lower expenses are the actual costs of the commodity (natural gas) and the distribution charges (sometimes called the interstate pipeline costs).

- The actual cost of natural gas and the distribution charges change all the time, and we as end users have little ability to control our own natural gas expenses in these two (2) areas. Natural gas is traded as a commodity every day on the stock market and there are many things that can push the costs of natural gas upwards without warning. Example: Hurricanes Rita and Katrina, terrorism, other weather pattern changes, etc.

- The cost of natural gas is extremely unpredictable and the SEM seeks to control our utility costs through an on-line auction that eliminates the uncertain nature of its purchase and use. The auction shall result in a fixed commodity price (natural gas) and a fixed transportation charge. In short, there will be price stability, price certainty, and the opportunity to realize lower costs over the life of the SEM contract.

- The SEM auction will be held with options of a 12 month and 24 month period. The lock in price for each time period will ultimately drive the decision on the contract length. At the conclusion of the auction, the SEM will enter a contract for the fixed price for either 12 or 24 months. Obviously, we want the best price possible for all SEM members.

- Volume and certainty of purchase drives the price we will get on the open market for buying natural gas and paying for interstate pipeline transportation costs. The SEM is literally driving down the profit margins in return for guaranteeing a minimum amount of usage based on our respective records. If SEM members use less natural gas in the future, there is no down side. If we use more natural gas over the life of the contract, then we are guaranteed price stability, and protection from the volatile nature of gas costs (commodity) and transportation.

- It is impossible to examine natural gas costs for your respective entity without looking at the price changes over the past several years. Although the past few months have seen some stability in natural gas prices, they have already started rising again in recent weeks. Over the past several years, natural gas prices have spiked upwards with little warning and increased our operating costs with no mercy.

- When the SEM goes to auction on January 22nd, there will be what is called a "strike price" or maximum threshold set for the purchase of natural gas. The strike price is comprised of the maximum cost the SEM will agree to pay for natural gas on a per dekatherm basis. Contained within the strike price is a fee to cover the costs of operating the SEM. This is a small fee of .25 cents per dekatherm that will be incorporated into the auction price so the SEM can pay the energy procurement company, World Energy and the SEM's own costs. In short, the overall "strike price" is comprised of the "not to exceed" commodity price and transportation charge, and the fixed fee.

- The **strike price set for the auction is $ 8.85 per dekatherm**. The SEM has a built in margin that allows it to reduce the strike price prior to the actual auction, but it will not be increased under any circumstances for the auction. Reducing the strike price if the market warrants such a decision can only benefit SEM members because it helps secure a lower cost per dekatherm through the auction.

- As part of the auction process, an opt out form has been sent to every member of the SEM. If you want to be included in the January 22nd auction for natural gas, then there is nothing for you to do.

- If your entity wants to opt out of the auction, then you must sign and return the opt out form to the SEM no later than the close of business on January 18, 2010. If you do not return the form, then your township or utility will be included in the natural gas auction.

In conclusion, the SEM's natural gas auction is focused on creating a stability of price for the term of the contract period. We know that doing nothing leaves us at the hands of a floating and unpredictable market. Some may prefer such an option. The SEM offers an opportunity for each public entity to have a fixed budget price for the purchase of natural gas (the commodity and its transportation) over the term of the contract, and protection against upward cost fluctuations. By creating a fixed price that protects public entities against cost increases, the SEM's goal at a minimum is to lock in price certainty and cost savings over a 12 or 24 month period.