



Municipal Technical Advisory Service

CITY OF ROCKWOOD
NATURAL GAS FUND REPORT
MARCH 27, 2000

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CITY OF ROCKWOOD NATURAL GAS FUND

The City of Rockwood operates a natural gas system for approximately 2,600 residential and commercial customers who are served by the main city gas distribution gate. In addition, there are three industrial customers, IMCO, Horsehead, and Bayou Steel who purchase natural gas under a third party contract. These customers separately contract with Rockwood for transportation of the gas on the city distribution system for these gas purchases.

In 1996, Rockwood entered into an agreement with the City of Kingston (Exhibit 1) to provide natural gas service within the City of Kingston. The revenues and expenses of the Kingston portion of the project are included in the City of Rockwood Natural Gas Fund, with separate accounting records maintained for each system.

Exhibits

Exhibit 1-Ordinance of the City of Kingston allowing Rockwood to construct and maintain a natural gas system

Exhibit 2-City of Rockwood Natural Gas Fund Financial Projection for the combined Rockwood and Kingston systems

Exhibit 3-City of Rockwood Natural Gas Fund Financial Projection for the Rockwood system

Exhibit 4-City of Rockwood Natural Gas Fund Financial Projection for the Kingston system

Exhibit 5-City of Rockwood Natural Gas Fund Financial projection for the combined Rockwood and Kingston systems with a 15% revenue increase for the City of Rockwood

Exhibit 6-City of Rockwood Natural Gas Fund Financial Projection for the Rockwood system with a 15% revenue increase

Exhibit 7-City of Rockwood Natural Gas Fund Financial Projection for the Kingston system without a revenue increase

Exhibit 8-Projected Principal and Interest for borrowing of \$3,400,000 at 4.50% interest for 20 years

Exhibit 9-Schedule of Current and Projected gas rates

Basic Assumptions

For purposes of this study MTAS has made the following assumptions:

For the **City of Rockwood** financial projection-

- *a 1% annual growth in revenues
- *beginning with F/Y 2001 a loss of \$130,000 per year in revenues due to Fortifill Fibers contract with a third party gas supplier
- *a 2% annual increase in operating and maintenance expenses

For the **City of Kingston** financial projection-

- *a 10% growth in revenues for F/Y 2000
- *a 20% growth in revenues for F/Y 2001
- *a 10% growth in revenues for F/Y 2002-2007
- *a 5% growth in revenues for F/Y 2008-2009
- *borrowing of \$3,400,000 at 4.5% interest rate for 20 years
- *gas purchases of 3% of the total City of Rockwood purchases based on revenues generated (We obtained the billing records from Woodward Marketing, but there is not a breakdown provided to give us the actual portion of gas purchases applicable to Kingston)
- *current levels of staffing and personnel for operating and maintenance expenses
- *a franchise fee of 2% of gross revenues paid to City of Kingston beginning F/Y 2006

Analysis and Recommendation

MTAS was asked to consider three alternatives for the City of Kingston gas project:

1. A ten year projection and applicable rates for Kingston
2. Borrowing of additional funds for the Kingston project
3. Selling the Kingston portion of the Rockwood gas system

Ten year projection and applicable rates for Kingston

Exhibit 4 is a ten year projection for the City of Kingston portion of the gas system. Currently, Kingston has approximately 390 customers generating \$75,000 per year in revenues. Per the agreement with Kingston, those gas customers can be charged no more than \$2.80 per MMBTU above the Rockwood customer rates (Section 12.01 of the ordinance). After an initial ten year period Kingston rates can only be adjusted at the same rate as Rockwood. As you can see from the projection Kingston is simply not creating enough revenues to fund their portion of the gas system. In fact there are not revenues sufficient to cover the operating and maintenance expenses. In the agreement with Kingston, Rockwood has to maintain certain fixed costs and staffing levels for the City of Kingston. Rockwood has agreed to staff an office in Kingston and dedicate a certain portion of operation and maintenance personnel to them (Section 10.01). As a result O & M costs are expected to remain somewhere at the current level of \$200,000 per year. In addition, the debt interest and depreciation costs are approximately \$225,000 per year. Even with the projected growth in customers and revenues for Kingston, this portion of the system will not be able to fund itself. Based on our projections, the rate for Kingston would have to at least triple in order to provide the necessary revenues. This is simply not realistic from a practical standpoint, nor is it even permissible under the terms of the agreement.

Exhibit 3 indicates that the Rockwood portion of the gas system will continue to have a net income based on our projections. However, when examining the total gas system operated under the Natural Gas Fund, the losses attributable to Kingston will cause the system to operate with a net loss (Exhibit 2). This is a trend expected to continue throughout the ten year analysis.

Borrowing of additional funds for the Kingston project

A second alternative considered with the Kingston gas project is to borrow additional funds to complete the project and deal short-term with the expenses. Since the gas system is not projecting to have a net income with the current debt load, additional interest costs are only going to compound the problem. It is true that you can't "borrow your way out of debt". We realize that at some point acquiring additional funds may be the only way to extend the gas lines to the remaining areas of the project. The only way to consider that alternative is to be willing to institute a corresponding rate increase to cover the new debt. **At this point MTAS does not recommend borrowing additional funds for Kingston.**

Selling the Kingston portion of the gas system

A final alternative for Rockwood to consider is to sell the Kingston portion of the gas system. It may be that other gas systems would be interested in acquiring the City of Kingston gas system. However, it is doubtful that many of them would be willing to take over the current debt. Also, there is a provision in the agreement with Kingston that allows the City of Kingston the first opportunity to purchase the system should it be available for sale. If Rockwood seriously wishes to pursue a sell, we would suggest that Kingston be approached first to determine their interest

and perhaps negotiate a sell or transfer of the system to them. Otherwise Rockwood could directly contact other gas systems, or advertise by trade publications the offer to sell.

Recommendations

Obviously the City of Rockwood gas system cannot operate long term with net losses. Because of restrictions we have already noted, gas rates just for the Kingston portion of the gas fund cannot be sufficiently raised to bring that portion into the black. In view of this MTAS makes the following recommendations:

1. Rockwood consider closing the Kingston office and making other arrangements to collect bills and handle customer problems. The language in Section 10.01 of the agreement stipulates that Rockwood maintain an office in Kingston “or provide a place”. Perhaps a bank or even the Rockwood Electric office could collect the billings and customers could call the Rockwood office with complaints or questions. If that arrangement doesn’t work, perhaps the city could just provide someone in Kingston one day a week to collect billings, and handle other business. Other changes in service that allow for reduction in the operating and maintenance costs should be pursued. If those changes necessitate changes in the agreement, the City of Kingston should be contacted to arrange discussion of those changes.

2. Rockwood open discussions with the City of Kingston concerning the extension of the time frame for beginning the franchise fee payments, or the elimination of those payments altogether. The real purpose for providing gas into Kingston is to give the city a much needed service, not to generate monies for the City of Kingston. We realize that this would not save a huge sum of money, but it just doesn’t make sense to make these payments on a project that is not economically viable.

3. Rockwood should implement a 15% rate increase for all City of Rockwood gas customers. Exhibits 5, 6, and 7 are the ten year projections with this revenue increase. While the Kingston portion of the fund will continue to operate in a loss, enough revenues will be generated in Rockwood to show a net income. Raising the City of Kingston rate any further is simply not a realistic alternative especially as the goal is to attract new customers. A 15% increase will allow the gas system to have some funds for future repairs, equipment replacement, etc. Also, the principal payments on the debt come from the funds generated by net income. This rate increase will be a short term solution as the uncertainty of the gas market and rising operating and maintenance costs will necessitate an annual review and periodic adjustment of the rates. We know increasing City of Rockwood customer rates is going to be difficult to consider, but is the only way overall to produce a net income. Perhaps if some of the cost cutting measures recommended are put into place, the gas system could have a better fund balance. The gas system has already increased rates for the transportation customers, and that is certainly a step in the right direction.

4. Rockwood give serious consideration of transferring or selling the gas system to the City of Kingston, or another gas system. Discussions with Kingston should emphasize the serious financial situation this project has created in Rockwood, and the need for the two cities to work together to find a solution for this valuable service the citizens of Kingston want and need.

Other Considerations

The projections provided in this study are based on the financial information provided to us by the staff of the Rockwood gas system. Please consider that financial projections which run longer than 3 or 4 years are guesswork at best. Also, gas purchase information was provided by Woodward Marketing, and we were not able to obtain true purchase information for the gas volumes at the gate serving Kingston.

Exhibit 1

ORDINANCE NO. _____

**AN ORDINANCE GRANTING TO THE CITY OF ROCKWOOD,
OPERATING THROUGH AND BY THE CITY OF ROCKWOOD
WATER, WASTEWATER, AND NATURAL GAS BOARD,
ITS SUCCESSORS AND ASSIGNS, A FRANCHISE TO CONSTRUCT,
MAINTAIN AND OPERATE A SYSTEM OF GAS MAINS, SERVICE PIPES,
AND OTHER NECESSARY EQUIPMENT AND FACILITIES FOR THE
PURPOSE OF TRANSMITTING AND DISTRIBUTING GAS IN, UPON,
ACROSS, ALONG AND UNDER THE HIGHWAYS, STREETS, ROADS,
ALLEYS, UTILITY EASEMENTS, AND PUBLIC GROUNDS OF THE
CITY OF KINGSTON, TENNESSEE.**

WHEREAS, the City of Rockwood Water, Wastewater, and Natural Gas Board is willing to issue bonds in the amount of \$3,500,000.00 for the extension of natural gas service to and within the corporate limits of the City of Kingston; and,

WHEREAS, the City of Kingston desires to have natural gas service within its corporate limits; and,

WHEREAS, the City of Rockwood Water, Wastewater, and Natural Gas Board can provide the natural gas at a more economical rate because of its purchasing power; and,

WHEREAS, the City of Rockwood Water, Wastewater, and Natural Gas Board and the City of Kingston would derive mutual benefits from this franchise,

NOW THEREFORE, BE IT ORDAINED BY THE CITY COUNCIL OF THE CITY OF KINGSTON THAT:

SECTION 1. Definitions:

- 1.01 "City" shall mean the City of Kingston, Tennessee, in its present and incorporated form or any later reorganized, consolidated, enlarged or reincorporated form.
- 1.02 "Board" shall mean the City of Rockwood Water, Wastewater, and Natural Gas Board, the franchisee of rights to this Ordinance awarding a franchise.
- 1.03 "User" shall mean any person or entity receiving natural gas services.
- 1.04 "MMBTU" shall mean the energy value equal to one million British Thermal Units.

SECTION 2: Grant of Authority:

- 2.01 There is hereby granted to the Board, its successors and assigns, the right, authority, privilege and franchise to construct, maintain and operate a system of gas mains, service pipes, regulator stations and all other necessary and appropriate equipment and facilities for the distribution of gas in, upon, across, along and under the highways, streets, roads, alleys, utility easements, and

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public grounds in the present or future corporate limits of the City of Kingston, Tennessee. for the supplying and selling of manufactured, natural or commingled gas to said City, and the inhabitants, institutions, and businesses thereof; and for such purposes to construct, lay down, maintain, renew, replace, repair, extend and operate all necessary gas mains, service pipes and other appliances, fixtures and facilities as may be necessary for the transmission, distribution and sale of such gas to said City and the inhabitants, institutions, and businesses thereof, for domestic, commercial, industrial and institutional uses, and such other purposes for which it is or may hereafter be used.

- 2.02 This grant of a franchise shall be exclusive except where presently served by other natural gas utilities.

SECTION 3. Duration:

- 3.01 This franchise shall extend for a period of twenty-five (25) years from and after the effective date of this Ordinance.

SECTION 4. Renewal:

- 4.01 Renewal is automatic if no notice is given by either the Board or the City at least six (6) months prior to the termination of this Ordinance.

SECTION 5. Engineering:

- 5.01 All gas mains, service pipes, fixtures, facilities and other appliances so laid and constructed shall be constructed and maintained in accordance with the best, latest and most acceptable engineering practice and specifications and in accordance with the United States Department of Transportation rules and regulations as interpreted by the Tennessee Regulatory Authority. Board shall maintain existing lines and facilities in accordance with the same codes, statutes and regulations.
- 5.02 Such installations shall be constructed and maintained so as not to interfere with the drainage, sanitary or storm sewers or any other improvements which said City has heretofore made or may hereafter make in, upon, across, along or under any highway, street, avenue, road, alley, or utility easement and shall not unnecessarily obstruct or impede such highway, street, avenue, road, alley, or utility easement and shall conform to the grade as then or hereafter established by the City.
- 5.03 When the highways, streets, avenues, roads, alleys, lanes, ways and utility easements are opened or any other opening is made by the Board within the City, whether the same be made for the purpose of laying, constructing, replacing or repairing the mains, pipes and other appliances and fixtures of said Board, said Board shall place and maintain all

necessary safety devices, barriers, lights and warnings to properly notify all persons of any dangers resulting from such entrances.

SECTION 6. Road or Right of Way Changes:

- 6.01 In the event it becomes necessary or expedient for the City to change the course or grade of any highway, street, avenue, road, alley, or utility easement, in which the Board has any gas mains, pipes or other appliances, which will interfere with such change on the part of the City, it is agreed that upon written request of the City Manager, or other responsible agent of the City, the Board will, at the expense of the City, and within the shortest possible time, remove or change the location of such mains, pipes, or other appliances in accordance with the direction of the City Manager or other responsible agent of the City.

SECTION 7.

- 7.01 Whenever the Board wishes to enter upon any highway, street, avenue, road, alley, or utility easement for the purpose of constructing, replacing or repairing any gas mains, pipes or other appliances, it shall notify the City and, if practicable, file a plan or map of the proposed work. Whenever any highway, street, avenue, road, alley, or utility easement shall be entered, dug up or disturbed by the Board, it shall, at its expense and as soon as

possible after the work is completed, restore such highway, street, avenue, road, alley, or utility easement in as good condition as existed before the work was done.

- 7.02 The provisions of this section shall not be applied or interpreted in such a way as to prevent or delay Board work that may be required as a result of any emergency, leak or other immediate hazard or danger.

SECTION 8. Board Liability:

- 8.01 The Board shall at all times defend, indemnify and hold harmless the City from and against any and all lawful claims for injuries to any person or property by reason of the failure of the Board or its employees to exercise due care and diligence in and upon the installing and maintenance of said system, guarding trenches and excavations while said system is being installed or subsequent extensions, repairs or alterations are being made or generally in the operation and maintenance of said system, provided the Board shall have been notified in writing of any claim against the City on account thereof and shall have been given ample opportunity to defend same.

- 8.02 Board hereby agrees, upon official request of the City, to furnish to the City evidence of insurance

as provided by the Tennessee Municipal League Pool.

SECTION 9. Regulation:

- 9.01 The Board shall at all times during the life of this franchise be subject to all lawful exercise of the police power and other authority of the City and to such reasonable regulations as the City shall hereafter by Resolution or Ordinance provide. The Board shall make every reasonable effort to furnish an ample and uninterrupted supply of gas to all customers throughout its entire system within the City, and on any enlargements and extensions thereof within the City, subject to a 500' maximum of main line to reach customer and present tap policy.
- 9.02 The Board, being subject to the regulations of the Tennessee Regulatory Authority, this Ordinance shall be subject to such rules and regulations as are approved by said Authority or any other regulatory body having jurisdiction over the Board. All rules and regulations adopted by such regulatory bodies having jurisdiction over the Board shall be and become a part of this Ordinance to the same extent and with the same affect as if set out verbatim herein.

SECTION 10. Local Office:

before March 1st of each year, so long as the Board shall supply and sell natural gas to the public within said City or so long as this franchise is in effect. In the event said Board shall fail to pay said sums so stipulated, then the City reserves the right to revoke this franchise if said amount that is due and payable is not fully paid within a period of sixty (60) days after written notice of such delinquency to Board.

11.03

The City shall have access at all reasonable times to the books of the Board for the purpose of ascertaining the amount of tax due the City. The Board shall furnish to the City a report showing the amount of gross revenues from its sale of gas within the City annually. The franchise tax imposed herein shall be effective from and after *, 19*.

11.04

The said franchise fee provided for herein may be renegotiated from time to time during the term of this franchise, but in no event shall said fee be set higher than five percent (5%). Provided further that the parties may negotiate a different basis for determining the amount of said fee, to-wit, the parties may agree that said fee should be based upon volumes sold as opposed to gross revenues.

SECTION 12. Rates:

12.01 The rate charged to the users within the City shall maintain a margin of \$2.80 per MMBTU for the first ten (10) years; thereafter the system will become a integral part of the Rockwood Gas Department.

12.02 The Board shall not as to rate charges, service facilities, rules, regulations, or any other respect, make or grant any preference or advantage to any person, nor subject any person to any prejudice or disadvantage.

SECTION 13. Annual Review:

13.01 At least annually, Board shall review at the request of the City Manager or some other person designated by the City, Board's past performance and future projection.

SECTION 14. Assignment:

14.01 In the event the Board desires to sell or transfer the entire assets of the gas business which is the subject of this Ordinance, then the Board must offer to the City the opportunity to buy those assets located and situated in the City of Kingston upon the same terms as being offered to some other party. The City will have sixty days to accept the offer and an additional sixty days to close said

transaction in the event the City elects to exercise the option to purchase.

SECTION 15. Elision:

15.01 If any section or portion of any section of this Ordinance shall hereafter be declared or determined by any Court of competent jurisdiction to be invalid, the Board and the City shall have thirty days to give written notice to the other of its intentions to ratify or confirm the remaining portions of this Ordinance. If both do not confirm and ratify same, this franchise Ordinance shall be terminated upon the expiration of said thirty-day period. If the Ordinance as so modified is ratified or confirmed, then the remaining portions of this Ordinance shall remain in full force and effect.

SECTION 16. Acceptance:

16.01 The Board shall, within thirty days after the passage of this Ordinance, file with the City Clerk its unconditioned acceptance of the terms and conditions of this Ordinance, by its President.

SECTION 17. Approval:

17.01 This franchise is subject to the approval of the Public Service Commission for the State of Tennessee. A copy of the written approval of the Public Service Commission shall be furnished to the City Clerk by Board and a copy of same filed with this franchise Ordinance.

SECTION 18. Date of Acceptance:

18.01 This franchise Ordinance shall take effect after its passage on second and final reading and thirty days after its publication in a local newspaper, whichever is the later to occur.

Passed and signed this * day of *, 19*.

Mayor

ATTEST:

City Clerk

Passed first reading _____

Passed second reading_...

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**CITY OF ROCKWOOD
NATURAL GAS FUND
FINANCIAL PROJECTION**

Exhibit 2

	Audit F/Y 1997	Audit F/Y 1998	Projected F/Y 1999	Projected F/Y 2000	Projected F/Y 2001	Projected F/Y 2002	Projected F/Y 2003
Revenues							
Sales	\$2,447,274	\$2,868,290	\$2,626,975	\$2,659,120	\$2,544,000	\$2,577,540	\$2,612,325
Other Income	\$56,704	\$31,664	\$169,782	\$75,000	\$90,000	\$80,000	\$80,000
Interest Income	\$49,421	\$50,102	\$44,116	\$40,000	\$70,000	\$60,000	\$56,000
Total Revenues	\$2,553,399	\$2,950,056	\$2,840,873	\$2,774,120	\$2,704,000	\$2,717,540	\$2,748,325
Expenses							
Operating & Maint	\$464,347	\$449,743	\$664,605	\$661,000	\$670,000	\$680,000	\$695,600
Gas Franchise Fee				\$0	\$0	\$0	\$0
Gas Purchased	\$2,211,746	\$2,277,231	\$2,058,820	\$2,075,030	\$1,963,200	\$1,982,832	\$2,002,660
Depreciation	\$65,804	\$67,513	\$67,513	\$143,000	\$144,000	\$145,000	\$145,000
Interest Expense	\$0	\$0	\$79,837	\$100,000	\$153,000	\$148,123	\$143,026
Total Expenses	\$2,741,897	\$2,794,487	\$2,870,775	\$2,979,030	\$2,930,200	\$2,955,955	\$2,986,286
Net Income (Loss)	(\$188,498)	\$155,569	(\$29,902)	(\$204,910)	(\$226,200)	(\$238,415)	(\$237,961)
		Projected F/Y 2004	Projected F/Y 2005	Projected F/Y 2006	Projected F/Y 2007	Projected F/Y 2008	Projected F/Y 2009
Revenues							
Sales		\$2,648,359	\$2,685,642	\$2,724,378	\$2,764,970	\$2,799,020	\$2,833,330
Other Income		\$80,000	\$80,000	\$80,000	\$80,000	\$80,000	\$80,000
Interest Income		\$50,000	\$44,000	\$40,000	\$36,000	\$30,000	\$30,000
Total Revenues		\$2,778,359	\$2,809,642	\$2,844,378	\$2,880,970	\$2,909,020	\$2,943,330
Expenses							
Operating & Maint		\$705,392	\$721,380	\$731,567	\$741,959	\$759,558	\$770,369
Gas Franchise Fee		\$0	\$0	\$2,904	\$3,200	\$3,360	\$3,520
Gas Purchased		\$2,022,687	\$2,042,914	\$2,063,343	\$2,083,976	\$2,104,816	\$2,125,864
Depreciation		\$146,000	\$147,000	\$148,000	\$149,000	\$150,000	\$151,000
Interest Expense		\$137,701	\$132,135	\$126,319	\$120,241	\$113,890	\$107,253
Total Expenses		\$3,011,780	\$3,043,429	\$3,072,133	\$3,098,376	\$3,131,624	\$3,158,006
Net Income (Loss)		(\$233,421)	(\$233,787)	(\$227,755)	(\$217,406)	(\$222,604)	(\$214,676)

**CITY OF ROCKWOOD
NATURAL GAS FUND
FINANCIAL PROJECTION
ROCKWOOD CITY GAS**

Exhibit 3

	Audit F/Y 1997	Audit F/Y 1998	Projected F/Y 1999	Projected F/Y 2000	Projected F/Y 2001	Projected F/Y 2002	Projected F/Y 2003
Revenues							
Sales	\$2,447,274	\$2,868,290	\$2,558,683	\$2,584,000	\$2,454,000	\$2,478,540	\$2,503,325
Other Income	\$56,704	\$31,664	\$64,046	\$60,000	\$60,000	\$60,000	\$60,000
Interest Income	\$49,421	\$50,102	\$44,116	\$40,000	\$35,000	\$30,000	\$28,000
Total Revenues	\$2,553,399	\$2,950,056	\$2,666,845	\$2,684,000	\$2,549,000	\$2,568,540	\$2,591,325
Expenses							
Operating & Maint	\$464,347	\$449,743	\$452,171	\$461,000	\$470,000	\$480,000	\$489,600
Gas Purchased	\$2,211,746	\$2,277,231	\$2,054,488	\$2,015,030	\$1,891,200	\$1,903,832	\$1,915,460
Depreciation	\$65,804	\$67,513	\$67,513	\$68,000	\$69,000	\$70,000	\$70,000
Interest Expense	\$0	\$0	\$0	\$0	\$0	\$0	\$0
Total Expenses	\$2,741,897	\$2,794,487	\$2,574,172	\$2,544,030	\$2,430,200	\$2,453,832	\$2,475,060
Net Income (Loss)	(\$188,498)	\$155,569	\$92,673	\$139,970	\$118,800	\$114,708	\$116,265
		Projected F/Y 2004	Projected F/Y 2005	Projected F/Y 2006	Projected F/Y 2007	Projected F/Y 2008	Projected F/Y 2009
Revenues							
Sales		\$2,528,359	\$2,553,642	\$2,579,178	\$2,604,970	\$2,631,020	\$2,657,330
Other Income		\$60,000	\$60,000	\$60,000	\$60,000	\$60,000	\$60,000
Interest Income		\$25,000	\$22,000	\$20,000	\$18,000	\$15,000	\$15,000
Total Revenues		\$2,613,359	\$2,635,642	\$2,659,178	\$2,682,970	\$2,706,020	\$2,732,330
Expenses							
Operating & Maint		\$499,392	\$509,380	\$519,567	\$529,959	\$540,558	\$551,369
Gas Purchased		\$1,926,687	\$1,936,914	\$1,948,343	\$1,955,976	\$1,970,816	\$1,985,864
Depreciation		\$71,000	\$72,000	\$73,000	\$74,000	\$75,000	\$76,000
Interest Expense		\$0	\$0	\$0	\$0	\$0	\$0
Total Expenses		\$2,497,079	\$2,518,294	\$2,540,910	\$2,559,935	\$2,586,374	\$2,613,233
Net Income (Loss)		\$116,280	\$117,348	\$118,268	\$123,035	\$119,646	\$119,097

**CITY OF ROCKWOOD
NATURAL GAS FUND
FINANCIAL PROJECTION
KINGSTON CITY GAS**

Exhibit 4

	Audit F/Y 1997	Audit F/Y 1998	Projected F/Y 1999	Projected F/Y 2000	Projected F/Y 2001	Projected F/Y 2002	Projected F/Y 2003
Revenues							
Sales	\$0	\$0	\$68,292	\$75,120	\$90,000	\$99,000	\$109,000
Other Income	\$0	\$0	\$105,736	\$15,000	\$30,000	\$20,000	\$20,000
Interest Income	\$0	\$0	\$0	\$0	\$35,000	\$30,000	\$28,000
Total Revenues	\$0	\$0	\$174,028	\$90,120	\$155,000	\$149,000	\$157,000
Expenses							
Operating & Maint	\$0	\$0	\$212,434	\$200,000	\$200,000	\$200,000	\$206,000
Gas Franchise Fee	\$0	\$0	\$0	\$0	\$0	\$0	\$0
Gas Purchased	\$0	\$0	\$4,332	\$60,000	\$72,000	\$79,000	\$87,200
Depreciation	\$0	\$0	\$0	\$75,000	\$75,000	\$75,000	\$75,000
Interest Expense	\$0	\$0	\$79,837	\$100,000	\$153,000	\$148,123	\$143,026
Total Expenses	\$0	\$0	\$296,603	\$435,000	\$500,000	\$502,123	\$511,226
Net Income (Loss)	\$0	\$0	(\$122,575)	(\$344,880)	(\$345,000)	(\$353,123)	(\$354,226)
		Projected F/Y 2004	Projected F/Y 2005	Projected F/Y 2006	Projected F/Y 2007	Projected F/Y 2008	Projected F/Y 2009
Revenues							
Sales		\$120,000	\$132,000	\$145,200	\$160,000	\$168,000	\$176,000
Other Income		\$20,000	\$20,000	\$20,000	\$20,000	\$20,000	\$20,000
Interest Income		\$25,000	\$22,000	\$20,000	\$18,000	\$15,000	\$15,000
Total Revenues		\$165,000	\$174,000	\$185,200	\$198,000	\$203,000	\$211,000
Expenses							
Operating & Maint		\$206,000	\$212,000	\$212,000	\$212,000	\$219,000	\$219,000
Gas Franchise Fee		\$0	\$0	\$2,904	\$3,200	\$3,360	\$3,520
Gas Purchased		\$96,000	\$106,000	\$115,000	\$128,000	\$134,000	\$140,000
Depreciation		\$75,000	\$75,000	\$75,000	\$75,000	\$75,000	\$75,000
Interest Expense		\$137,701	\$132,135	\$126,319	\$120,241	\$113,890	\$107,253
Total Expenses		\$514,701	\$525,135	\$531,223	\$538,441	\$545,250	\$544,773
Net Income (Loss)		(\$349,701)	(\$351,135)	(\$346,023)	(\$340,441)	(\$342,250)	(\$333,773)

**CITY OF ROCKWOOD
NATURAL GAS FUND
FINANCIAL PROJECTION
WITH A 15% REVENUE INCREASE FOR ROCKWOOD**

Exhibit 5

	Audit F/Y 1997	Audit F/Y 1998	Projected F/Y 1999	Projected F/Y 2000	Projected F/Y 2001	Projected F/Y 2002	Projected F/Y 2003
Revenues							
Sales	\$2,447,274	\$2,868,290	\$2,626,975	\$2,659,120	\$2,544,000	\$2,577,540	\$2,612,325
Sales-New Revenue					\$368,100	\$371,781	\$375,500
Other Income	\$56,704	\$31,664	\$169,782	\$75,000	\$90,000	\$80,000	\$80,000
Interest Income	\$49,421	\$50,102	\$44,116	\$40,000	\$70,000	\$60,000	\$56,000
Total Revenues	\$2,553,399	\$2,950,056	\$2,840,873	\$2,774,120	\$3,072,100	\$3,089,321	\$3,123,825
Expenses							
Operating & Maint	\$464,347	\$449,743	\$664,605	\$661,000	\$670,000	\$680,000	\$695,600
Gas Franchise Fee				\$0	\$0	\$0	\$0
Gas Purchased	\$2,211,746	\$2,277,231	\$2,058,820	\$2,075,030	\$1,963,200	\$1,982,832	\$2,002,660
Depreciation	\$65,804	\$67,513	\$67,513	\$143,000	\$144,000	\$145,000	\$145,000
Interest Expense	\$0	\$0	\$79,837	\$100,000	\$153,000	\$148,123	\$143,026
Total Expenses	\$2,741,897	\$2,794,487	\$2,870,775	\$2,979,030	\$2,930,200	\$2,955,955	\$2,986,286
Net Income (Loss)	(\$188,498)	\$155,569	(\$29,902)	(\$204,910)	\$141,900	\$133,366	\$137,539
		Projected F/Y 2004	Projected F/Y 2005	Projected F/Y 2006	Projected F/Y 2007	Projected F/Y 2008	Projected F/Y 2009
Revenues							
Sales		\$2,648,359	\$2,685,642	\$2,724,378	\$2,764,970	\$2,799,020	\$2,833,330
Sales-New Revenue		\$379,253	\$383,046	\$386,877	\$390,750	\$394,650	\$398,600
Other Income		\$80,000	\$80,000	\$80,000	\$80,000	\$80,000	\$80,000
Interest Income		\$50,000	\$44,000	\$40,000	\$36,000	\$30,000	\$30,000
Total Revenues		\$3,157,612	\$3,192,688	\$3,231,255	\$3,271,720	\$3,303,670	\$3,341,930
Expenses							
Operating & Maint		\$705,392	\$721,380	\$731,567	\$741,959	\$759,558	\$770,369
Gas Franchise Fee		\$0	\$0	\$2,904	\$3,200	\$3,360	\$3,520
Gas Purchased		\$2,022,687	\$2,042,914	\$2,063,343	\$2,083,976	\$2,104,816	\$2,125,864
Depreciation		\$146,000	\$147,000	\$148,000	\$149,000	\$150,000	\$151,000
Interest Expense		\$137,701	\$132,135	\$126,319	\$120,241	\$113,890	\$107,253
Total Expenses		\$3,011,780	\$3,043,429	\$3,072,133	\$3,098,376	\$3,131,624	\$3,158,006
Net Income (Loss)		\$145,832	\$149,259	\$159,122	\$173,344	\$172,046	\$183,924

CITY OF ROCKWOOD
NATURAL GAS FUND
FINANCIAL PROJECTION
ROCKWOOD CITY GAS
WITH A 15% REVENUE INCREASE

Exhibit 6

	Audit	Audit	Projected	Projected	Projected	Projected	Projected
	F/Y 1997	F/Y 1998	F/Y 1999	F/Y 2000	F/Y 2001	F/Y 2002	F/Y 2003
Revenues							
Sales	\$2,447,274	\$2,868,290	\$2,558,683	\$2,584,000	\$2,454,000	\$2,478,540	\$2,503,325
Sales-New Revenue					\$368,100	\$371,781	\$375,500
Other Income	\$56,704	\$31,664	\$64,046	\$60,000	\$60,000	\$60,000	\$60,000
Interest Income	\$49,421	\$50,102	\$44,116	\$40,000	\$35,000	\$30,000	\$28,000
Total Revenues	\$2,553,399	\$2,950,056	\$2,666,845	\$2,684,000	\$2,917,100	\$2,940,321	\$2,966,825
Expenses							
Operating & Maint	\$464,347	\$449,743	\$452,171	\$461,000	\$470,000	\$480,000	\$489,600
Gas Purchased	\$2,211,746	\$2,277,231	\$2,054,488	\$2,015,030	\$1,891,200	\$1,903,832	\$1,915,460
Depreciation	\$65,804	\$67,513	\$67,513	\$68,000	\$69,000	\$70,000	\$70,000
Interest Expense	\$0	\$0	\$0	\$0	\$0	\$0	\$0
Total Expenses	\$2,741,897	\$2,794,487	\$2,574,172	\$2,544,030	\$2,430,200	\$2,453,832	\$2,475,060
Net Income (Loss)	(\$188,498)	\$155,569	\$92,673	\$139,970	\$486,900	\$486,489	\$491,765
		Projected	Projected	Projected	Projected	Projected	Projected
		F/Y 2004	F/Y 2005	F/Y 2006	F/Y 2007	F/Y 2008	F/Y 2009
Revenues							
Sales		\$2,528,359	\$2,553,642	\$2,579,178	\$2,604,970	\$2,631,020	\$2,657,330
Sales-New Revenue		\$379,253	\$383,046	\$386,877	\$390,750	\$394,650	\$398,600
Other Income		\$60,000	\$60,000	\$60,000	\$60,000	\$60,000	\$60,000
Interest Income		\$25,000	\$22,000	\$20,000	\$18,000	\$15,000	\$15,000
Total Revenues		\$2,992,612	\$3,018,688	\$3,046,055	\$3,073,720	\$3,100,670	\$3,130,930
Expenses							
Operating & Maint		\$499,392	\$509,380	\$519,567	\$529,959	\$540,558	\$551,369
Gas Purchased		\$1,926,687	\$1,936,914	\$1,948,343	\$1,955,976	\$1,970,816	\$1,985,864
Depreciation		\$71,000	\$72,000	\$73,000	\$74,000	\$75,000	\$76,000
Interest Expense		\$0	\$0	\$0	\$0	\$0	\$0
Total Expenses		\$2,497,079	\$2,518,294	\$2,540,910	\$2,559,935	\$2,586,374	\$2,613,233
Net Income (Loss)		\$495,533	\$500,394	\$505,145	\$513,785	\$514,296	\$517,697

**CITY OF ROCKWOOD
NATURAL GAS FUND
FINANCIAL PROJECTION
KINGSTON CITY GAS
NO RATE INCREASE**

Exhibit 7

	Audit F/Y 1997	Audit F/Y 1998	Projected F/Y 1999	Projected F/Y 2000	Projected F/Y 2001	Projected F/Y 2002	Projected F/Y 2003
Revenues							
Sales	\$0	\$0	\$68,292	\$75,120	\$90,000	\$99,000	\$109,000
Sales-New Revenue					\$0	\$0	\$0
Other Income	\$0	\$0	\$105,736	\$15,000	\$30,000	\$20,000	\$20,000
Interest Income	\$0	\$0	\$0	\$0	\$35,000	\$30,000	\$28,000
Total Revenues	\$0	\$0	\$174,028	\$90,120	\$155,000	\$149,000	\$157,000
Expenses							
Operating & Maint	\$0	\$0	\$212,434	\$200,000	\$200,000	\$200,000	\$206,000
Gas Franchise Fee	\$0	\$0	\$0	\$0	\$0	\$0	\$0
Gas Purchased	\$0	\$0	\$4,332	\$60,000	\$72,000	\$79,000	\$87,200
Depreciation	\$0	\$0	\$0	\$75,000	\$75,000	\$75,000	\$75,000
Interest Expense	\$0	\$0	\$79,837	\$100,000	\$153,000	\$148,123	\$143,026
Total Expenses	\$0	\$0	\$296,603	\$435,000	\$500,000	\$502,123	\$511,226
Net Income (Loss)	\$0	\$0	(\$122,575)	(\$344,880)	(\$345,000)	(\$353,123)	(\$354,226)
		Projected F/Y 2004	Projected F/Y 2005	Projected F/Y 2006	Projected F/Y 2007	Projected F/Y 2008	Projected F/Y 2009
Revenues							
Sales		\$120,000	\$132,000	\$145,200	\$160,000	\$168,000	\$176,000
Sales-New Revenue		\$0	\$0	\$0	\$0	\$0	\$0
Other Income		\$20,000	\$20,000	\$20,000	\$20,000	\$20,000	\$20,000
Interest Income		\$25,000	\$22,000	\$20,000	\$18,000	\$15,000	\$15,000
Total Revenues		\$165,000	\$174,000	\$185,200	\$198,000	\$203,000	\$211,000
Expenses							
Operating & Maint		\$206,000	\$212,000	\$212,000	\$212,000	\$219,000	\$219,000
Gas Franchise Fee		\$0	\$0	\$2,904	\$3,200	\$3,360	\$3,520
Gas Purchased		\$96,000	\$106,000	\$115,000	\$128,000	\$134,000	\$140,000
Depreciation		\$75,000	\$75,000	\$75,000	\$75,000	\$75,000	\$75,000
Interest Expense		\$137,701	\$132,135	\$126,319	\$120,241	\$113,890	\$107,253
Total Expenses		\$514,701	\$525,135	\$531,223	\$538,441	\$545,250	\$544,773
Net Income (Loss)		(\$349,701)	(\$351,135)	(\$346,023)	(\$340,441)	(\$342,250)	(\$333,773)

PRINCIPAL	\$3,400,000
RATE OF INTEREST	4.50%
YEARS	20
ANNUAL PAYMENTS	\$261,379
TOTAL INTEREST	\$1,827,578
TOTAL PAYMENTS	\$5,227,578

Exhibit 8

YEAR	BEGINNING PRINCIPAL BALANCE	PRINCIPAL REQUIREMENT	INTEREST REQUIREMENT	TOTAL DEBT SERVICE REQUIREMENT	ENDING PRINCIPAL BALANCE
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1	3,400,000	108,379	153,000	261,379	3,291,621
2	3,291,621	113,256	148,123	261,379	3,178,365
3	3,178,365	118,352	143,026	261,379	3,060,013
4	3,060,013	123,678	137,701	261,379	2,936,334
5	2,936,334	129,244	132,135	261,379	2,807,091
6	2,807,091	135,060	126,319	261,379	2,672,031
7	2,672,031	141,138	120,241	261,379	2,530,893
8	2,530,893	147,489	113,890	261,379	2,383,405
9	2,383,405	154,126	107,253	261,379	2,229,279
10	2,229,279	161,061	100,318	261,379	2,068,217
11	2,068,217	168,309	93,070	261,379	1,899,908
12	1,899,908	175,883	85,496	261,379	1,724,025
13	1,724,025	183,798	77,581	261,379	1,540,228
14	1,540,228	192,069	69,310	261,379	1,348,159
15	1,348,159	200,712	60,667	261,379	1,147,447
16	1,147,447	209,744	51,635	261,379	937,703
17	937,703	219,182	42,197	261,379	718,521
18	718,521	229,045	32,333	261,379	489,476
19	489,476	239,352	22,026	261,379	250,123
20	250,123	250,123	11,256	261,379	(0)

**CITY OF ROCKWOOD
NATURAL GAS FUND
SCHEDULE OF RATES**

Current Rates

<i>Inside City</i>	Residential	Commercial
1 st 500 mbtu	\$5.20 (minimum)	\$5.25 (minimum)
Per 1,000 mbtu	\$5.20	\$5.25
<i>Outside City</i>		
1 st 500 mbtu	\$6.50 (minimum)	\$6.55 (minimum)
Per 1,000 mbtu	\$6.50	\$6.55

Local Transportation \$.30 per mmbtu

Projected Rates

<i>Inside City</i>	Residential	Commercial
1 st 500 mbtu	\$5.98 (minimum)	\$6.04 (minimum)
Per 1,000 mbtu	\$5.98	\$6.04
<i>Outside City</i>		
1 st 500 mbtu	\$7.48 (minimum)	\$7.53 (minimum)
Per 1,000 mbtu	\$7.48	\$7.53

1,000 mbtu = 1 dth = 1 mmbtu