

**Joint Legislative Committee on Performance
Evaluation and Expenditure Review (PEER)**

Report to
the Mississippi Legislature



A Management Review of the Municipal Gas Authority of Mississippi

State law charges the Municipal Gas Authority of Mississippi (MGAM) with providing an adequate, dependable, and economical supply of natural gas to state municipals that use its services. MGAM operates within the bounds prescribed by enabling legislation, providing beneficial services to municipal gas operations through gas supply and storage projects and flexible gas management services while operating in a financially sound manner. However, PEER identified weaknesses in the MGAM's management practices involving fee-setting methods, the refund policy for prepay gas supply bond projects, the informal agreement between the MGAM and the Municipal Energy Authority of Mississippi (MEAM), and performance raise policy and practices.

The MGAM does not have a documented fee-setting method for establishing its contract service fees. As a result, the MGAM cannot determine whether fees for each service are sufficient to cover costs or whether specific services are cost efficient.

The MGAM's policy for refunding excess revenues generated in the 1998 Prepay Gas Supply Bond Project to the nine full-time project participants is inequitable because it excludes participating non-MGAM members. As a result, the city of Vicksburg and its municipal gas customers have paid more for their prepay gas supply than the other full-time participating MGAM-member municipals, who received refunds totaling \$375,000 during FY 1999-02.

The MGAM and MEAM Boards of Commissioners have used an informal verbal agreement since October 1, 1994, to define services to be provided by the MEAM staff and amount of administrative and personnel expenses that the MGAM would reimburse. MGAM and MEAM do not have any defined methodology to determine periodically the actual personnel expense associated with each organization's workload.

Also, the MGAM has not documented employee responsibilities through written position descriptions with established minimum job qualifications and written performance standards, nor has it produced formal employee appraisals. Despite this lack of documentation, the MGAM's Board of Commissioners approved performance pay raises totaling \$59,077 from FY 1996 through FY 2003.

December 19, 2003

PEER: The Mississippi Legislature's Oversight Agency

The Mississippi Legislature created the Joint Legislative Committee on Performance Evaluation and Expenditure Review (PEER Committee) by statute in 1973. A standing joint committee, the PEER Committee is composed of five members of the House of Representatives appointed by the Speaker and five members of the Senate appointed by the Lieutenant Governor. Appointments are made for four-year terms with one Senator and one Representative appointed from each of the U. S. Congressional Districts. Committee officers are elected by the membership with officers alternating annually between the two houses. All Committee actions by statute require a majority vote of three Representatives and three Senators voting in the affirmative.

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The Committee assigns top priority to written requests from individual legislators and legislative committees. The Committee also considers PEER staff proposals and written requests from state officials and others.

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On December 19, 2003, the PEER Committee authorized release of the report entitled **A Management Review of the Municipal Gas Authority of Mississippi.**

A handwritten signature in cursive script that reads "Mary Ann Stevens".

Representative Mary Ann Stevens, Chair

This report does not recommend increased funding or additional staff.

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A Management Review of the Municipal Gas Authority of Mississippi

Executive Summary

Introduction

PEER sought to determine whether the Board of Commissioners of the Municipal Gas Authority of Mississippi (MGAM) operates in accordance with its statutory responsibility to provide services that benefit municipal gas operations. According to state law, the MGAM is responsible for providing an adequate, dependable, and economical source and supply of natural gas to state municipals that use its services. PEER also examined the operational and financial relationship that exists between the MGAM and the Municipal Energy Authority of Mississippi (MEAM).

Background

The Legislature created the MGAM in 1988 to be a “local gas distribution company of the state” and granted to it all rights and powers that are conferred to other state authorities and related to fulfilling its purpose in providing gas to their municipal customers. Commissioners are appointed by the respective utility commissions of the municipalities that are members of the authority.

In order to minimize start-up costs, the MGAM Board of Commissioners contracted with MEAM to provide management, clerical, facility, and operational supply support on a reimbursable basis for a term of five years. Since the contract expired in 1994, MGAM and MEAM have continued an informal arrangement whereby MGAM reimburses MEAM for its portion of actual costs related to office and payroll expenses.

Compliance with Statutory Authority

The MGAM operates within the bounds prescribed by enabling legislation, providing beneficial services to municipal gas operations through gas supply and storage gas projects and flexible gas management services while operating in a financially sound manner. The MGAM’s Board of Commissioners and its staff have pursued and implemented long-term and short-term gas supply projects that increased the availability of gas supplies from dependable sources at reasonable prices for municipal

operations that chose to take advantage of the MGAM projects. It has also used various marketing strategies to sell unused long-term project gas to its non-participating members or other eligible entities at a reasonable price and to make open market purchases for municipal gas operations. Further, it has provided gas management services to municipals that do not have the staff or information system capability to perform the tasks associated with this function at a relatively low fee.

As the policymaking body for the authority, the MGAM's Board of Commissioners decided not to provide assistance to municipalities in financing additions and other expenditures for their public gas system operations. Since the board consists of one voting representative from each member organization who chooses to participate on it, PEER does not question its decision, since its members apparently believed it was in their best interest to forgo any local benefits received from the MGAM fulfilling this responsibility to state municipalities.

PEER did identify some weaknesses in the MGAM's management practices involving fee-setting methods, the refund policy for prepay gas supply bond projects, the informal agreement between the MGAM and the MEAM, and performance raise policy and practices. Pages viii through ix of this executive summary briefly describe these weaknesses.

MGAM Financial and Gas Sales Summary

The MGAM primarily finances its operation through its sales of long-term prepaid bond project and other gas purchases, corresponding administrative fees for the purchased gas, and administrative fee charges for member services. From FY 1998 through FY 2003, MGAM gas sales and revenue experienced a significant net increase with a minimum cost increase per MMBTU for its customers. Specifically, the volume of gas sold has increased 43,043,684 MMBTUs, or 1,707.4%, while the revenues have increased \$175,964,365, or 2,280.7%. The associated average cost increase per MMBTU is \$0.97 (\$3.06 to \$4.03), or 31.7%, for this six-year sales period. The MGAM and its customers have experienced this increase primarily due to the increasing market price for the gas supply.

Weaknesses in MGAM Management

PEER found evidence that the MGAM's Board of Commissioners has established key management processes and controls to operate the state's local gas distribution company while achieving its operational objectives. Although it has not published a comprehensive policies and procedures manual, the board operates the MGAM in a financially sound manner, while it provides the short-term and long-term gas supplies to authority members and other municipals at prices less than market. These processes and controls include detailed and documented

accounting, external audit, internal post audit, budgeting, operational management, and planning systems and processes.

While the MGAM manages its operations well, the board should correct the following management and policy weaknesses to make its operation stronger.

- The MGAM does not have a defined and documented fee-setting method for establishing its contract service fees for basic membership, special membership, and administrative prepay project management services. As a result, the MGAM cannot determine whether current fees for each service are sufficient to cover costs or whether specific services are cost efficient. Any service organization that charges fees for its management activities and services has a responsibility to demonstrate to its customers that they are paying a fair price for the services being received. This practice must especially apply to an organization like the MGAM, which was created to develop, obtain, and promote the public good for the municipal gas operations in the state.
- The MGAM's policy for refunding excess revenues generated in the 1998 Prepay Gas Supply Bond Project to the nine full-time project participants is inequitable because it excludes participating non-MGAM members. As a result, the city of Vicksburg and its municipal gas customers have paid more for their prepay gas supply than the other full-time participating MGAM-member municipals, who received refunds totaling \$375,000 during FY 1999-02. As a result, Vicksburg's cost for purchased project gas was not reduced another \$35,984, or approximately \$0.04 per MMBTU.
- The MGAM and MEAM Boards of Commissioners have used an informal verbal agreement since October 1, 1994, to define services to be provided by the MEAM staff and amount of administrative and personnel expenses that the MGAM would reimburse. Also, MGAM and MEAM do not have any defined methodology to determine periodically the actual personnel expense associated with each organization's workload. Therefore, the MGAM proportion of personnel costs from FY 1998 through 2003 has steadily increased by \$134,484, or 26.4%, over the six-year period. This cost increase is due to a larger proportion of allocated costs for existing staff positions, two new full-time filled positions, annual employee cost-of-living raises, and employee performance raises.
- The MGAM has not documented employee responsibilities through written position descriptions with established minimum job qualifications and written performance standards, nor has it produced formal, written employee appraisals. However, the MGAM's Board of Commissioners approved twenty-eight performance salary raises to seven employees totaling \$59,077 from FY 1996 through FY 2003.

Recommendations

1. The MGAM Board of Commissioners should establish an analytical methodology to establish its basic and special membership services fees, as well as its administrative fees for its long-term gas supply projects.
2. The MGAM Board of Commissioners should review its policy of requiring organizational membership to participate in any annual refund of excess revenues from prepay gas supply bond projects and consider adopting a policy to distribute these revenues equitably to all full-time project participants regardless of their membership status.
3. The MGAM and the MEAM should use a formal contractual agreement on a continuous basis to define financial and support responsibilities. This agreement should include, in part:
 - a. an established employee time accounting system for determining the correct share of employee compensation for each authority;
 - b. the necessary workload analysis method(s) that will be used to determine the correct share of other unidentifiable administrative and operational expenses for each authority;
 - c. an established personnel management system for managing and evaluating joint staff. This system should include, in part: written position descriptions with minimum job qualifications; established job performance standards for “below,” “meets,” and “exceeds” evaluation categories; and,
 - d. the MGAM and MEAM personnel compensation policies concerning cost-of-living, performance, and salary alignments for their joint staff.
4. The MGAM Executive Director should publish an MGAM Policies and Procedures Manual for the authority.

For More Information or Clarification, Contact:

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A Management Review of the Municipal Gas Authority of Mississippi

Introduction

Authority

In response to a legislative request, the PEER Committee conducted a management review of the Municipal Gas Authority of Mississippi (MGAM) pursuant to the authority granted by MISS. CODE ANN. § 5-3-57 et seq. (1972).

Scope and Purpose

In conducting this review, PEER sought to:

- describe the purpose and responsibilities of the MGAM;
- determine whether the MGAM operates in accordance with enabling legislation [statutes govern the MGAM's organization, funding, and staffing and authorize the services which may be provided by the MGAM]; and,
- determine whether the MGAM provides services that benefit municipal gas operations [statute defines the responsibility of the MGAM to provide an adequate, dependable, and economical source and supply of natural gas (hereafter called "gas") to state municipals that use its services.]

PEER also examined the operational and financial relationship that exists between the MGAM and the Municipal Energy Authority of Mississippi (MEAM).

Method

PEER collected, reviewed, and/or analyzed the following information regarding the Municipal Gas Authority of Mississippi:

- FYs 1998-03 administrative budgets;
- FYs 1998-02 financial audits;
- FYs 1999-02 revenue/expense reconciliation reports for the 1998 Prepay Gas Supply Bond Project;
- FYs 1998-02 MGAM financial reimbursements to MEAM;
- FY 1999-04 gas purchasers and purchase information;
- FY 1995-03 MGAM/MEAM personnel compensation information;
- organizational by-laws and operational policies;
- board meeting minutes;
- bond or bond anticipation note information with itemized administrative issuance costs for gas supply and storage gas bond projects;
- gas purchase proposals and/or contracts for the 1998 and 2000 Prepay Gas Supply Bond Projects;
- employee position descriptions;
- financial and operational management documents; and,
- other related project materials.

PEER interviewed personnel of the MGAM, including its board attorney and financial consultant advisor. PEER also reviewed information from the Federal Internal Revenue Service, U. S. Department of Energy, U. S. Department of Transportation, and state statutes related to gas purchasing, selected pricing policies, procedures, and practices.

Background

Statutory Authority

In 1988, the Legislature determined that the state needed an authority to function without profit in developing, obtaining, and promoting for the public good adequate, dependable, and economical sources and supplies of gas and to assist in the financing of additions and other expenditures for municipal gas systems. To accomplish this action, it created the Municipal Gas Authority of Mississippi (MGAM) as a “local gas distribution company of the state” when it passed MISS. CODE ANN. § 77-6-7 (1972), effective May 16, 1988. The stated purpose for this authority was:

... undertaking the planning, financing, development, acquisition, construction, reconstruction, improvement, enlargement, betterment, operation and maintenance of a project or projects to supply gas for present or future needs as an alternative or supplemental method of obtaining the benefits and assuming the responsibilities of ownership in a project.
(Emphasis added)

In establishing the authority of the MGAM, the Legislature granted to it all rights and powers that are conferred to other state authorities and related to fulfilling its purpose in providing gas to municipal customers. Appendix A, page 25, contains a copy of these rights and powers.

The MGAM is a quasi-public entity that is excluded from oversight through the state’s budget, accounting, and personnel systems. MGAM is not subject to the control of the Public Service Commission.

The MGAM was created as a public non-profit corporation under the state laws governing non-profit corporations. As such, the MGAM is a quasi-public entity that is excluded from oversight through the state’s budget, accounting, and personnel systems; however the MGAM’s employees participate in the state retirement program. The MGAM also pays the employee premium for private health insurance coverage through individual plans. The individual must pay any dependent coverage.

The MGAM is not subject to the control of the Mississippi Public Service Commission. MISS. CODE ANN. § 77-6-71 (1972) specifically excludes its rates, services, and practices relating to purchase, development, storage, transmission, distribution, and sale from the commission’s laws and regulations.

The MGAM Governing Board's Membership, Authority, and Powers

Board Membership

MISS. CODE ANN. § 77-6-11 (1972) establishes an MGAM Board of Commissioners appointed by the respective utility commissions of the municipalities that are members of the authority. An appointee may, at the discretion of the municipality, be an officer or employee of the municipality who serves at the pleasure of the utility organization by which he was appointed.

MISS. CODE ANN. § 77-6-11 (1972) also requires a majority of the MGAM Board of Commissioners to be at a called meeting in order to have a quorum. In order to pass rules, motions, or resolutions, a majority of the quorum must approve. For example, in FY 2003, the board consisted of sixteen member organizations that required a quorum of nine members, with five members voting in the affirmative to pass a business item.

The MGAM's board members can now participate and vote on matters before the board via telecommunications or electronic means.

Due to lack of participation in the board meetings by member appointees, the MGAM Board of Commissioners has taken two actions to ensure a quorum at its meetings. First, it made active service on the board optional, so that the board now consists of an appointed representative from each member municipality who wants to be active in the management and operation of the authority. Second, the board sought and obtained an approved amendment to the CODE in the 2001 regular legislative session for board members to participate and vote on matters before the board via telecommunications or electronic means.

As a result of these actions, the MGAM Board of Commissioners has functioned more effectively on a routine basis. The MGAM's membership increased from twenty-one to twenty-four representatives during the period from FY 1997 to FY 2003, reaching a high of twenty-six members in FY 2000 and FY 2001. Appendix B, page 27, contains a list of the municipal members, type of member, and their status as members of the board of commissioners during this five-year period.

Board Authority and Powers

The MGAM Board of Commissioners is the policymaking body for the authority and carries out its function by adopting resolutions at regular meetings. The board acts as the approving authority for all authority contracts, expenditures, personnel decisions, policies, and procedures. The board holds an annual meeting, regular quarterly meetings, and special called meetings at the request of the board-elected executive committee or executive director.

MISS. CODE ANN. § 77-6-13 (1972) allows the board of commissioners to establish an executive committee and the powers and authority that it can exercise during intervals between board meetings. The board also determines the composition,

terms of office, and the method of filling vacancies for the executive committee members. They accomplish these actions through prescribed rules, motions or resolutions. The executive committee consists of five members elected annually by the board of commissioners.

MGAM Staff Support

MISS. CODE ANN. § 77-6-15 (1972), subsection (r), provides authority for the board to employ staff to provide its services. The board can:

...employ engineers, architects, geologists, economists, attorneys, real estate counselors, appraisers, financial advisors and such other consultants and employees as may be required in the judgment of the authority and to fix and pay their compensation from funds available to the authority.

Administrative Support Staff Shared with MEAM

In 1989, the MGAM chose to contract with the MEAM for administrative and management support and this relationship continues through informal arrangement.

The Legislature created the Municipal Energy Authority of Mississippi (MEAM) in 1978 to provide similar responsibilities for its members' electrical power and energy supply that MGAM was given to accomplish for municipal gas operations. Therefore, the MGAM chose to contract with the MEAM for administrative and management support, since the MEAM had an existing support staff that was experienced in a similar type of work, and to reduce its start-up costs. The MGAM Board of Commissioners signed a five-year contract, dated October 1, 1989, with MEAM for the existing MEAM's staff to provide the management, clerical functions, and office facilities to support the MGAM operation.

The initial MGAM-MEAM contract expired in 1994, but the MGAM and MEAM boards of commissioners have continued this staff support through an informal arrangement, sharing compensation costs. Each authority also pays fifty percent of the administrative and operational expenses that cannot be directly identified to either authority. (See page 19 for a discussion of this informal agreement.)

Staffing

The executive director is responsible for the day-to-day management of the MGAM's operation and implementation of policy and services through three financial staff members and two energy coordinators in the operations section. These individuals perform the tasks of coordinating, managing, purchasing, and

reporting the day-to-day functions associated with the MGAM's gas procurement. As noted above, these staff are shared with the MEAM.

MGAM Services

The MGAM is organized to provide management and procurement services to member and non-member municipalities throughout the state. The MGAM funds the services by charging municipalities administrative fees that vary depending on the recipient and the type of service.

The MGAM funds its services by charging municipalities administrative fees that vary depending on the recipient and the type of service.

MISS. CODE ANN. § 77-6-5 (1972) defines a "municipality" as a city, county, other political subdivision, or agency of the state. Therefore, the MGAM can solicit members from any of these entities. Additionally, MISS. CODE ANN. § 77-6-7 (1972) gives each municipality the option to determine if membership in the MGAM is in its best interest. However, nothing in the law limits the authority from providing services on a fee basis to eligible municipalities who choose to not become members of the MGAM.

Management Services

The MGAM provides different levels of services to its municipal gas and electric generation members for an administrative management fee per MMBTU gas purchased and/or used by the member and its customers (except electric generation members). These services include planning, programming, budgeting, financial accounting and payment, operational management, controlling, and reporting gas purchases and supplies. Administrative fees range from \$0.01 to \$0.03 per MMBTU.¹ Appendices C through F, pages 28 through 31, contain a list of these various services.

Procurement Services

The MGAM procures gas and storage capacity to meet its customers' needs by three methods:

- contracts for gas or storage supplies financed through bonded indebtedness;
- sale of excess contracted gas supplies; and,

¹An MMBTU is a measure of the heating value of 1,000 cubic feet of gas. To determine the MMBTU equivalents, the supplier multiplies each 1,000 cubic feet (MCF) by the average number of British Thermal Units per MCF.

- open market “spot market” purchases in response to customer demand.

The MGAM provides procurement services to its municipal gas and electric generation members as well as other non-member state municipalities for an administrative management fee per MMBTU gas purchased.

Gas Contracts Financed Through Bonded Indebtedness

The MGAM procures gas with both long-term and short-term contracts.

The MGAM uses two methods to procure gas by contract: prepaid contracts, which guarantee a given purchase price over multiple years (long-term), and contracts for “storage gas” that will be used within one year of purchase (short-term). Both methods benefit a municipality by attempting to procure gas supplies for daily delivery and future use in peak periods at the lowest possible market prices for its members and other municipals.

Contractual Procurement via Prepaid Contracts (Long-Term)

Beginning in 1998, the MGAM has initiated several gas supply bond projects to purchase gas for its municipal members, other state municipalities, and other eligible entities. These projects include the:

- *1998 Prepay Gas Supply Project*--This prepaid contract calls for Columbia Energy Services Corporation to guarantee delivery of 36,530,000 MMBTUs to ten MGAM participants--i.e., eight MGAM members and two non-MGAM municipal members--from January 1, 1999, through December 31, 2009. Each participant, who has contracted with the MGAM for this gas, is guaranteed up to the maximum daily delivery amount specified in its contract with the authority at the market index price minus \$0.05 for the contract period.

The MGAM can also sell any gas unused by the project participants to any other tax-exempt gas or electric generation operation at an agreed price, or back to Columbia Energy Services Corporation for the market index price minus \$0.005. The total revenue bond proceeds for this project was \$72,915,000, with \$63,966,981 being paid for the gas at the start of the contract period and \$8,948,019 for funds to establish a debt service reserve fund and administrative issuance expenses.

- *2000 Prepay Gas Supply Project*--This prepaid contract calls for Aquila Energy Services Corporation to deliver 52,336,060 MMBTUs to eight MGAM members from January 1, 2000, through December 31, 2010. Each participant, who has contracted with the MGAM for this

gas, is guaranteed up to the maximum daily delivery amount specified in its MGAM contract at the market index price minus \$0.05 for the contract period.

Since this revenue bond issue was taxable, requiring the bondholders to pay interest on their earnings, the MGAM can also sell any unused gas of the project participants to any tax-exempt or taxed gas or electric generation operation at an agreed price, or back to Aquila Energy Services Corporation for the market index price minus \$0.005. The total bond proceeds for this project was \$125,455,000, with \$122,668,298 being paid for the gas at the start of the contract period and \$2,786,702 for administrative issuance expenses.

The MGAM charges different purchase prices for the unused prepay project gas to its member and non-member municipalities. The municipal members, who do not participate in the prepay bond projects, usually pay the market index price minus the discount amount (\$0.05), while the non-member municipals usually pay the market index price per MMBTU.

Contractual Procurement of Storage Gas (Short-Term)

The MGAM started using a new short-term bond funding strategy in order to help municipals' cash flow problems associated with injecting gas into and delivering it from their storage facilities when it is needed for their peak heating months.

When a municipal participant in a storage project needs gas injected into its contract storage facilities, the MGAM uses bond proceeds to complete the purchase transaction at the lowest available market price from an MGAM contract supplier for the purchase amount. However, the MGAM does not bill the municipal for the gas until the month that its gas operation actually has the storage gas delivered for its customers' use. The billed cost per MMBTU is the sum of the weighted average percentage of the MGAM costs for the amount of purchased MMBTUs for injection; storage charges associated with the injected gas; actual interest, issuance, and other related bond costs; and other associated purchase and storage costs such as transportation costs.

The MGAM has used this marketing strategy in three different years:

- *2001 Gas Storage Bond Project*—The MGAM sold one-year term bonds valued at \$500,000 to purchase storage gas of 134,270 MMBTUs for four MGAM members during September 1, 2001, through June 30, 2002.
- *2002 Gas Storage Bond Project*--This one-year term bond project provided \$700,000 to purchase 293,947 MMBTUs for six MGAM members. The contract period was May 1, 2002, through June 30, 2003.

- *2003 Gas Storage Bond Project*--This one-year term bond project provided \$1,200,000 to purchase 297,794 MMBTUs for seven MGAM members. The contract period was April 1, 2003, through May 31, 2004.

Sale of Excess Contracted Gas Supplies

Some participants in the two ten-year gas prepaid contracts do not use the maximum amount of available gas under contract creating unused project gas. The excess gas may result for several reasons, such as weather experience, fluctuations in number of customers, loss of industrial customers, etc.

The MGAM can sell excess gas left over from prepaid contracts to other gas operations or suppliers who meet the non-taxable and taxable requirements of the projects.

The MGAM can sell this excess gas to other gas operations or suppliers who meet the non-taxable and taxable requirements of the 1998 and 2000 projects, respectively. Therefore, the MGAM can only sell the 1998 project gas to any tax-exempt gas operation or sell it back to the contract project gas supplier, while the 2000 project gas can be sold to any public or private “non-profit” or “for profit “ operation, including the project gas supplier. The Federal Internal Revenue Service requires MGAM to sell at least ninety percent of this gas to public, non-profit entities.

The MGAM uses the unused contract gas supply as its first source for non-project participant requested sales to non-project municipal members, non-MGAM municipal members, and other eligible public or private entities. It has also recently begun advertising available excess gas in the projects to public and private operations, including suppliers.

Open Market “Spot Market” Purchases

Municipalities occasionally run short of contractually purchased gas and are required to purchase additional amounts to meet a peak customer demand on a temporary short-term basis.

In making open market buys, the MGAM seeks the best available price per MMBTU for the requested gas volume in the current market through a competitive bidding process.

In making open market “spot market” buys, the MGAM seeks the best available price per MMBTU for the requested gas volume in the current market through a competitive bidding process. The MGAM obtains at least three verbal price quotes from gas suppliers and, with the prior approval of the municipality, enters into a sales agreement with the low bidder and the municipality for the required amount.

Sales Volume and Revenues of Gas to Municipalities and Other Entities

The MGAM has experienced significant changes in its volume of gas sales and revenues from FY 1997 through FY 2003 due to the

two MGAM ten-year prepay gas supply contracts. These changes have included:

- an increase of 43,043,684 MMBTUs, or 1,707.4%, in the volume of gas sold;
- an increase of \$175,964,365, or 2,280.7%, in gas revenues; and,
- an increase of \$0.97 per MMBTU (\$3.06 to \$4.03), or 31.7%, in the total average cost per MMBTU for this six-year sales period. The MGAM and its customers have experienced this increase primarily due to the increasing market price for the gas supply.

Exhibit 1, page 11, shows this growth in sales volume, revenues, and average cost per MMBTU that includes the purchase, administrative, and transportation costs for the gas.

Exhibit 1: FYs 1997-03 Total Purchase of Gas by Municipalities and Other Eligible Entities with Revenues and Average Cost Per MMBTU that Includes Purchase, Administrative, and Transportation Costs for the Gas

Fiscal Year	Number of Municipal Members	Municipal Purchased MMBTUs	Other Purchased MMBTUs	Total MMBTUs Purchased	Total MMBTU Costs	Average Cost Per MMBTU
1997	21	2,520,962	no sales	2,520,962	\$7,715,518	\$3.06
1998	21	3,788,638	no sales	3,788,638	10,008,615	2.64
1999	23	4,620,580	699,910	5,320,490	13,156,872	2.47
2000	25	4,758,404	709,979	5,468,383	19,297,150	3.53
2001	28	6,925,947	1,988,884	8,914,831	49,017,917	5.50
2002	28	6,980,768	2,355,035	9,335,803	31,408,910	3.36
2003	24	8,098,424	2,117,115	10,215,539	53,074,901	5.20
Totals		37,693,723	7,870,923	45,564,646	\$183,679,883	\$4.03

SOURCE: MGAM Records.

Note 1: Municipal sales and revenues include the MGAM's municipal members and non-members.

Note 2: Other purchased MMBTUs include any tax-exempt gas or electric generation entity, or the two prepay bond project contractors. Any private "non-profit" or "for profit" sales were from 2000 prepay bond project supplies.

Note 3: The summary sales records for gas contain the audited sales amounts, purchase cost, pipeline, and the MGAM's administrative charges. They do not specify individually the "other entities" that made the gas purchases.

Conclusions

The MGAM operates within the bounds prescribed by enabling legislation, providing beneficial services to municipal gas operations through gas supply and storage gas projects and flexible gas management services while operating in a financially sound manner. However, PEER identified weaknesses in the MGAM's management practices involving lack of documented fee setting methods, the refund policy for prepay gas supply bond projects, the informal agreement between the MGAM and the MEAM, and performance raise policy and practices.

Compliance with Statutory Authority

The MGAM's Board of Commissioners and its staff have pursued and implemented gas supply projects that fall within its statutory authority and increased the availability of gas supplies from dependable sources at reasonable prices for municipal operations that chose to take advantage of the MGAM's projects.

As discussed on page 3, the Legislature created the MGAM to be a *local gas distribution company for the state* that would function as a public non-profit operation. In this capacity, the authority has two major responsibilities:

- to develop, obtain, and promote adequate, dependable, and economical sources and supplies of gas for state municipality operations; and,
- to assist municipalities in the financing of additions and other expenditures for their public gas system operations.

The MGAM's Efforts to Provide a Gas Supply

The MGAM has accomplished its statutory purpose.

The MGAM is accomplishing its statutory purpose to provide an "adequate, dependable, and economical" gas supply for state municipal gas operations. It has accomplished this statutory purpose through several operational strategies, including:

- long-term prepay gas supply projects at a discounted price below the market index price that have produced a net cost savings of \$0.02 per MMBTU below the Southeast gas market index price between January 1, 1999, and November 30, 2010. See discussion on pages 7-8;
- short-term storage gas projects that have assisted the municipal participating operations in resolving their cash flow problems. These short-term projects can also result in lower prices for the purchased gas during the low gas-demand summer months due to volume buying to meet

participants' aggregated needs. See discussion on pages 8-9;

- sales of unused 1998 and 2000 prepay gas project supplies to their members who are not project participants at the participants' discounted price, other state municipals for market index price, and other eligible project entities for at least market price;
- open market spot purchases for any non-member state municipality at a reasonable administrative cost figure of \$0.03 per MMBTU;
- competitive proposal process for the long-term contracts with required surety bond for the gas supplier; and,
- a relatively low fee for natural gas management services to municipals that do not have the staff or information system capability to perform the tasks associated with this function.

MGAM Assistance in Financing Additions and Other Expenditures

The MGAM's board decided not to provide assistance to municipalities in financing additions and other expenditures for their public gas system operations.

As the policymaking body for the authority, the MGAM's Board of Commissioners chose to limit its services to the development of available gas supplies at economical prices for municipal operations. Thus, the board decided not to provide assistance to municipalities in financing additions and other expenditures for their public gas system operations. Since the board consists of one voting representative from each member organization who chooses to participate on it, PEER does not question its decision, since its members apparently believed it was in their best interest to forgo any local benefits received from the MGAM fulfilling this responsibility to state municipalities.

MGAM Financial Summary

The MGAM's revenue has continually increased since FY 1998.

The MGAM primarily finances its operation through its sales of prepaid bond project and other gas purchases, their corresponding administrative fees for the purchased amount of gas, and its administrative fee charges for its different levels of member services. Since the MGAM charges its cost for the gas and pipeline transportation charges to the purchasing municipality, the MGAM actually generates revenues from:

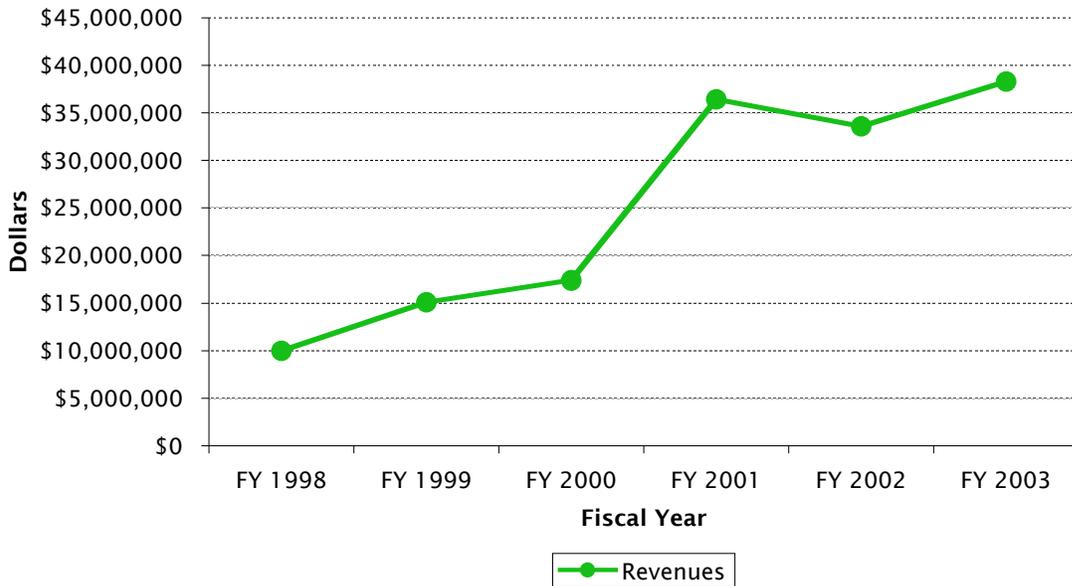
- various administrative fee charges;
- bond and other interest income;
- storage bond issuance charges;

- transfers from prepay bond project excess revenues; and,
- some miscellaneous income.

Exhibit 2, below, shows that the MGAM’s revenue has continually increased since FY 1998. The MGAM has generated net excess revenues of \$159,245 from FY 1998 through FY 2003, with a net gain in five of the six years and one net loss year in FY 1999 (\$2,579). During this period, the MGAM experienced the following financial trends:

- growth in annual sales of prepay project gas since FY 1999;
- decreasing other gas sales from FY 1998 until FY 2003;
- growth in administrative charge revenues from FY 1998 until FY 2003 due to increased membership services and the prepay gas supply and storage bond project sales;
- growth in total expenses from FY 1998 until FY 2003; and,
- growth in MEAM administrative expenses.

Exhibit 2: MGAM Revenue (FY 1998 – FY 2003)



SOURCE: The MGAM’s records

Note 1: The increased revenues are primarily due to the increased gas sales for all or part of the daily gas requirements generated by the 1998 and 2000 prepaid gas supply contracts over a ten-year period.

Weaknesses in MGAM Management

PEER found evidence that the MGAM's Board of Commissioners has established key management processes and controls to operate the state's local gas distribution company while achieving its operational objectives. While the MGAM manages its operations well, the board should correct some management and policy weaknesses to make its operation stronger.

The MGAM's Board of Commissioners has established financial and operational management policies, practices, and controls to achieve its two organizational objectives, although it has not published these policies and procedures in a comprehensive policies and procedures manual. As a result, the board operates the MGAM in a financially sound manner, while it provides the short-term and long-term gas supplies to authority members and other municipals at prices less than market. These processes and controls include detailed and documented accounting, external audit, internal post audit, budgeting, operational management, and planning systems and processes.

PEER identified some weaknesses in the MGAM's management policies and practices, including:

- absence of a documented fee setting methodology for establishing contract service fees for basic membership, special membership, and administrative prepay project management services;
- absence of an equitable refund policy for participants in its two ten-year prepay gas supply bond projects;
- lack of documentation of the agreement with MEAM for the administrative services to be provided and reimbursement of expenses; and,
- lack of documentation of performance standards and written personnel evaluations that were used as the basis for increasing compensation.

Absence of a Methodology to Set Fees for MGAM Contract Services

The MGAM does not have a defined and documented fee setting method for establishing its contract service fees for basic membership, special membership, and administrative prepay project management services. As a result, the MGAM cannot determine whether current fees for each service are sufficient to cover costs or whether specific services are cost efficient.

The MGAM conducts all basic membership, special membership, and prepay or storage project management services with municipals on a contractual basis. These contracts outline the specific responsibilities and services of each party (the MGAM and the municipality), as well as the fees and charges that the municipality must pay to the MGAM for the contracted services. These fees are assessed based on the number of purchased

MMBTUs (depending on the type of contract), the category of the municipal operation (gas or electric generation operation), the type of services provided, and whether the municipal is an MGAM member that will or will not purchase gas through MGAM gas.

Administrative management and sales fees and charges are primary sources of the MGAM's revenue. These fees are used to fund management and operational costs of the authority. The MGAM does not use any defined and documented methodology to establish its fee structure for the various levels of its membership services and other types of contractual services. In fact, the MGAM staff told PEER that they did not know how former the MGAM executive directors determined the existing fees that the board of commissioners adopted for its basic membership, special membership, and administrative prepay project management services.

Any service organization that charges fees for its management activities and services has a responsibility to demonstrate to its customers that they are paying a fair price for the services being received.

Any service organization that charges fees for its management activities and services has a responsibility to demonstrate to its customers that they are paying a fair price for the services being received. Accomplishing this management objective requires a fee-setting method that can be applied to the various levels of the MGAM's services. This reasonable practice must especially apply to an organization like the MGAM, which was created to develop, obtain, and promote the public good for the municipal gas operations in the state.

The MGAM Board of Commissioners has not established any fee-setting methods to determine the lowest reasonable fee for its membership, management, and/or gas sales services as a matter of policy. Therefore, PEER cannot determine whether the MGAM is providing its membership, management, and/or gas sales services to municipals and other eligible entities for the most economical cost per MMBTU that is necessary to cover its operating costs and generate some small revenue gains annually.

Presently, the MGAM cannot assure the Legislature that the state's local gas distribution company is promoting the public good in municipal gas operations at the lowest, most economical cost for municipalities.

When asked, the MGAM must be able to assure the Legislature, its members, other state municipals, and other eligible customers for its gas supply projects that they are paying a the lowest, most economical fees for its services. The MGAM cannot presently fulfill this accountability requirement, since it has no established methods to set its various fees. Thus, the MGAM cannot assure the Legislature that the state's local gas distribution company is promoting the public good in municipal gas operations at the lowest, most economical cost for the municipalities.

Lack of Equitable Excess Revenue Refund Policy for 1998 Gas Project Participants

The MGAM's policy for refunding excess revenues generated in the 1998 Prepay Gas Supply Bond Project to the nine full-time project participants is inequitable because it excludes participating non-MGAM members. As a result, the city of Vicksburg and its municipal gas customers have paid more for their prepay gas supply than the other full-time participating MGAM-member municipalities, who received refunds totaling \$375,000 during FY 1999-02.

During FY 1999-02, the MGAM's board refunded \$375,000 in excess revenues to eight municipals that were MGAM members, while excluding two participants that were non-MGAM members.

The MGAM included provisions in its 1998 Prepay Gas Supply Bond Project contract with all participants that dealt with how excess or insufficient revenues from the sales of project would be handled by the organization. The provisions in Section 4.4 required the MGAM to reconcile the gas project revenues with specified project expenses after the third party annual audit to determine whether the annual sales had generated excess or insufficient revenues to pay for the gas purchases. This reconciliation process was called the "Annual True-up."

The project contract provisions for the distribution of excess revenue or collection of insufficient revenues were written in discretionary and specific language, respectively. Concerning excess or insufficient revenues, the contract's Section 4.4 stated that the MGAM Board of Commissioners "may make refunds to Municipality and the other participating members of MGAM in amounts within the discretion of MGAM's Commissioners." These refunds of excess revenues were to be made "to each of MGAM's participating members in an amount reflecting a fair and reasonable allocation of such refunds as determined by MGAM's Commissioners." The board was to consider with respect to municipalities and such other participating members their:

- purchases from the MGAM during the year;
- transportation and storage costs and contract quantities;
- use of such transportation and storage contract entitlements for purposes of enabling the MGAM to realize cost savings and produce revenues for the benefit of the participating members; and,
- other factors as determined by the commissioners.

These excess revenues were generated through the sales of the project gas supply to tax-exempt gas operations, including project participants, other MGAM member municipalities, and non-MGAM member municipalities.

Municipalities Excluded From Refunds of Excess Revenue

During FY 1999-03, the MGAM earned excess revenues totaling \$3,943,298 from its sales of 1998 project gas supply to tax-exempt gas operations including project participants, other MGAM member municipalities, and non-MGAM member

municipalities. During FY 1999-02, the board of commissioners exercised its discretionary authority to refund \$375,000 in excess revenues to eight municipals that were MGAM members, while excluding two participants that were non-MGAM members. The board of commissioners did not approve a refund for two municipal participants in the project: Vicksburg and Greenwood.

Vicksburg

Vicksburg was a full-time project participant but not a member of the MGAM. Vicksburg, as a participant, paid the same administrative fee for project management services for each purchased MMBTU of gas (\$0.03 per MMBTU) as the eight municipals receiving the five annual refunds.

Although MGAM officials had specifically stated to Vicksburg officials that a municipal did not have to be an organizational member to participate in the 1998 Prepay Gas Supply Bond Project, the board treated Vicksburg differently concerning the refund.

Vicksburg did not secure the excess revenue refunds because it was not a member of the MGAM. However, the MGAM specifically stated in its August 1996 invitation letter to this municipal that a municipal did not have to be an organizational member to participate in the 1998 Prepay Gas Supply Bond Project. Therefore, the board of commissioners treated Vicksburg differently, especially when considering that municipals receiving the refunds were voting members on the board that made the refund decision. As a result, Vicksburg's cost for purchased project gas was not reduced another \$35,984, or approximately \$0.04 per MMBTU, that it could pass along to its customers during the five years.

Greenwood

The MGAM also did not include Greenwood in distribution of excess revenues back to 1998 project participants.

Greenwood is a part-time project participant that does not pay the \$0.03 per MMBTU administrative fee for project management services. The MGAM structured the city's contract in this manner since it only wanted to purchase gas for five months per year for its electric generation operation (June through October). Thus, the MGAM contract guarantees Greenwood a net cost savings of \$0.08 per MMBTU below the market price for the first decade in the twenty-first century. As a result, the MGAM did not include Greenwood in the distribution of excess revenues back to the 1998 project participants.

Lack of MGAM/MEAM Expense Reimbursement Agreement and Methodology

The MGAM and MEAM Boards of Commissioners have used an informal verbal agreement since October 1, 1994, to define services to be provided by MEAM staff and amount of administrative and personnel expenses that the MGAM would reimburse. Also, MGAM and MEAM do not have any defined methodology to determine periodically the actual personnel expense associated with each organization's workload.

When it was created in 1989, the MGAM entered into a formal written agreement for the MEAM to provide management, clerical, facility, and operational supply support on a reimbursable basis for a term of five years. This contract remained in effect from October 1, 1989, through September 30, 1994, with one amendment to the compensation section.

The compensation section in this initial contract required the MGAM to pay \$5,000 per month for the MEAM's services. It also provided for renegotiation of the compensation amount at the end of the first contract year. The MGAM and the MEAM amended the contract to establish a new compensation method, effective October 1, 1990. Under this new method, the MGAM reimbursed the MEAM for:

- the actual salary and fringe benefit costs of staff time used for MGAM business;
- an equal share of costs not customarily identifiable on an as-consumed basis; and,
- all supplies, materials, and other expenses whose principal benefit accrued to the MGAM.

Although the contract expired as of October 1994, the MGAM continues to use and reimburse the MEAM for these same personnel and operational resources.

The two organizations amended the compensation section in the contract, in part, to require the MGAM to "pay an amount sufficient to reimburse MEAM for staff time at actual cost, including applicable fringe benefits." However, this contract amendment did not establish a method for determining the actual personnel time devoted to each organization's workload. According to the MGAM's staff, the two organizations have no formal contract currently in force. The MGAM and the MEAM have continued to use the compensation for services language in the 1990 compensation section amendment to the original contract since the original contract expired in 1994. There is an informal arrangement between the MEAM and MGAM Board of Commissioners whereas the MGAM will reimburse the MEAM for its portion of actual costs related to various office and payroll expenses.

The MGAM funds six filled positions and two vacant positions on a cost-share basis with the MEAM that varies depending on the

staff position. These employees include an executive director, controller, accountant, accounting assistant, and two energy coordinators. An administrative assistant and accounts receivable clerk positions are currently vacant, although the MGAM plans to fill the clerk position early in CY 2004. Exhibit 3, below, shows these positions and their cost shares for the MGAM and the MEAM.

Exhibit 3: MEAM Employee Positions with the MGAM and MEAM Cost Share for Salary, Payroll Taxes, State Retirement, and Insurance, as of December 1, 2003

Position	Filled	MGAM	MEAM	Total
Executive Director	Yes	50.0%	50.0%	100.0%
Administrative Assistant	No	50.0%	50.0%	100.0%
Controller	Yes	50.0%	50.0%	100.0%
Accountant	Yes	100.0%	0.0%	100.0%
Accounting Assistant	Yes	40.0%	60.0%	100.0%
Accounts Receivable Clerk	No	100.0%	0.0%	100.0%
Energy Supply Coordinator	Yes	75.0%	25.0%	100.0%
Energy Supply Coordinator	Yes	100.0%	0.0%	100.0%

SOURCE: The MGAM's records.

Trend in Allocation of Personnel Costs

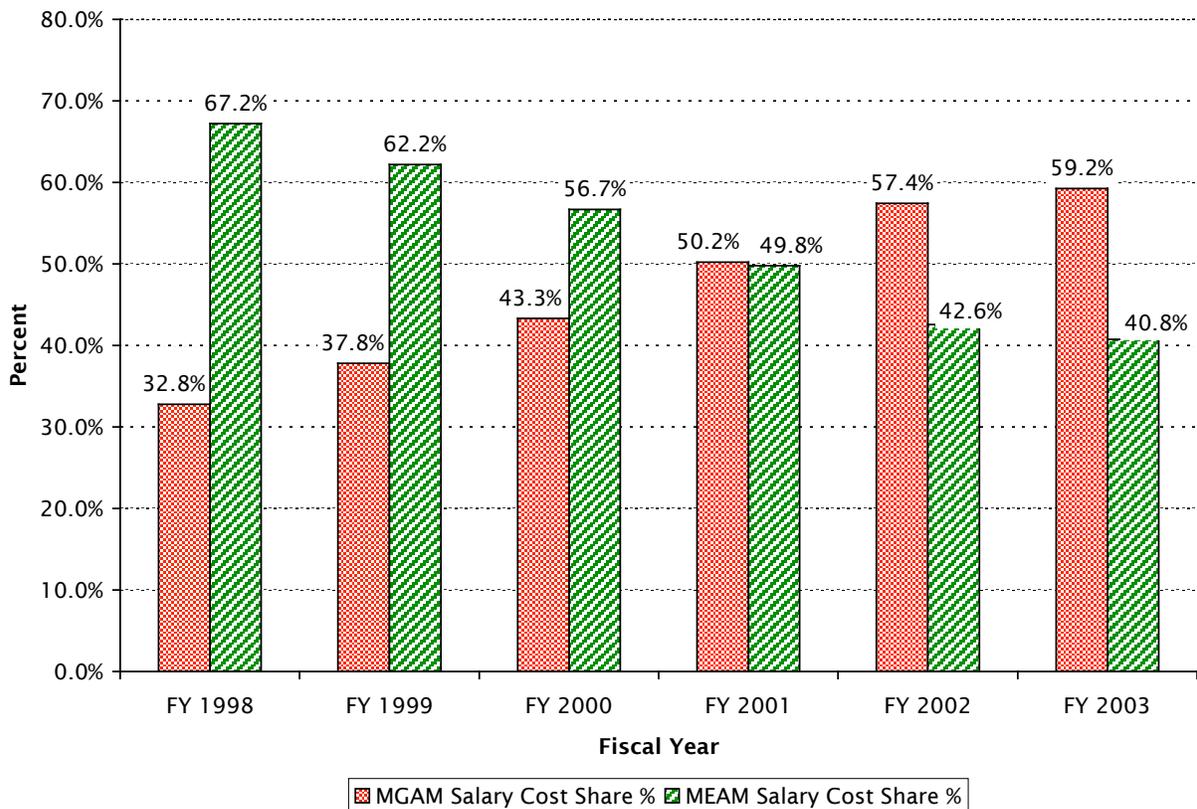
PEER observed a shift in administrative costs being reimbursed by the MGAM. These increased costs have occurred since the joint staff experienced increasing MGAM workload associated with the new MGAM marketing strategies discussed on pages 6-9. However, the MGAM has not developed any methodology or documentation to justify the changing cost shares for the personnel compensation costs.

The MGAM and the MEAM do not have a time accounting or workload analysis system for capturing data on the amount of time staff are working for each organization.

Since FY 1998, the MGAM's proportion of personnel costs has steadily increased by \$134,484, or 26.4%, over the six-year period. This cost increase is due to a larger proportion of allocated costs for existing staff positions, two new full-time filled positions, annual employee cost-of-living raises, and employee performance raises. Exhibit 4, page 21, shows the allocation percentages for personnel costs from FY 1998 to FY 2003. However, the MGAM and the MEAM do not have a time accounting or workload analysis

system for capturing data on the amount of time staff are working for each organization. The MGAM and the MEAM arbitrarily established the cost share percentages for allocating costs of personnel compensation annually or more often.

Exhibit 4: Change in MGAM/MEAM Personnel Compensation Cost Allocation Percentages (for Period FY 1998 through FY 2003)



SOURCE: Compiled by PEER from the MGAM's records.

The agreement between the MEAM and the MGAM to share actual costs mandates a methodology to determine those costs.

While PEER agrees that the majority of staff time is associated with MGAM workload now, the agreement to share actual costs mandates a time accounting and workload analysis methodology to determine those costs. Otherwise, one of the organizations will probably pay too large a cost share and thus subsidize the other separately incorporated public, non-profit corporation at the expense of its member and other contract municipalities.

Lack of Documentation of Basis for Employee Performance Raises

The MGAM has not documented employee responsibilities through written position descriptions with established minimum job qualifications and written performance standards nor has it produced formal written employee appraisals.

Since FY 1996, the MGAM and the MEAM have given annual cost-of-living and performance raises to employees totaling \$107,579.

Since FY 1996, the MGAM and the MEAM have given annual cost-of-living and performance raises in each fiscal year to all employees except one individual. These raises have increased the MGAM and MEAM base salary cost by \$107,579 without any consideration of the impact on the fringe benefit cost and the compounding effect of the raises over the seven years. The thirty-five cost-of-living raises have increased the employee base salaries a total of \$48,502, or approximately 3.1% annually.

The MGAM Board of Commissioners has approved twenty-eight performance salary raises to seven employees totaling \$59,077. These raises have been made without any established written performance standards for each staff position or annual written personnel evaluations of employees filling these positions.

The former MGAM Executive Director recommended these raises to the board although he had no written performance standards for any staff position and did not conduct annual written performance evaluations. While the recommended percentage of raises varied between individuals, they were not based on any systematic documented evaluation of prior employee performance for the record.

Organizations use employee performance raises to reward individuals who have consistently exceeded the expected performance level of a satisfactory employee. In order to base raises on performance, an organization should have certain elements in place. These include:

- written position descriptions that clearly outline duties and responsibilities;
- written performance standards which set forth employer expectations for “below,” “meets,” and “exceeds” the performance standards; and,
- periodic written performance appraisals that evaluate employee performance over a given period and rate an individual as “below,” “meets,” or “exceeds” performance standards for each evaluated component and overall.

The MGAM did not have employee performance standards in place and thus awarded its performance raises improperly.

While PEER supports the use of performance raises, the board of commissioners and former MGAM Executive Director have used them inappropriately, since they did not have the necessary personnel evaluation system with established performance standards in place. The MGAM has not justified these raises with the required documents.

Recommendations

1. The MGAM Board of Commissioners should establish an analytical methodology to establish its basic and special membership services fees, as well as its administrative fees for its long-term gas supply projects.
2. The MGAM Board of Commissioners should review its policy of requiring organizational membership to participate in any annual refund of excess revenues from prepay gas supply bond projects and consider adopting a policy to distribute these revenues equitably to all full-time project participants regardless of their membership status.
3. The MGAM and the MEAM should use a formal contractual agreement on a continuous basis to define financial and support responsibilities. This agreement should include, in part:
 - an established employee time accounting system for determining the correct share of employee compensation for each authority;
 - the necessary workload analysis method(s) that will be used to determine the correct share of other unidentifiable administrative and operational expenses for each authority;
 - an established personnel management system for managing and evaluating joint staff. This system should include, in part: written position descriptions with minimum job qualifications; established job performance standards for “below,” “meets,” and “exceeds” evaluation categories; and,
 - the MGAM and MEAM personnel compensation policies concerning cost-of-living, performance, and salary alignments for their joint staff.
4. The MGAM Executive Director should publish an MGAM Policies and Procedures Manual for the authority.

Appendix A: Statutory Rights and Powers of Municipal Gas Authority of Mississippi

1. To adopt bylaws for the regulation of the affairs and the conduct of its business, and to prescribe rules, regulations and policies in connection with the performance of its functions and duties;
2. To adopt an official seal and alter the same at pleasure;
3. To sue and be sued in its own name, and to plead and be impleaded;
4. To receive, administer and comply with the conditions and requirements respecting any gift, grant or donation of any property or money;
5. To acquire by purchase, lease, gift or otherwise, or to obtain options for the acquisition of, any property, real or personal, improved or unimproved, including rights-of-way or other interests in land less than the fee thereof;
6. To sell, lease, exchange, transfer or otherwise dispose of, or to grant options for any such purposes with respect to, any real or personal property or interest therein;
7. To pledge or assign any money, rents, charges or other revenues and any proceeds derived by the authority from the sales of property, insurance or condemnation awards;
8. To issue bonds of the authority for the purpose of providing funds for any of its corporate purposes;
9. To study, plan, finance, construct, reconstruct, acquire, improve, enlarge, extend, better, own, operate and maintain, one or more projects, either individually or jointly, with one or more municipalities in this state or any other state or with any agencies or instrumentalities of any state, or any person, firm, association or corporation, public or private, engaged in the production, transmission, distribution or end-use of gas within this state or any other state, and to pay all or any part of the costs thereof from the proceeds of bonds of the authority or from any other funds made available to the authority;
10. To authorize the construction, operation or maintenance of any project or projects by any person, firm or corporation, including municipalities and agencies of any state, or of the United States;
11. To acquire by lease, purchase or otherwise an existing project or a project under construction, or any interest therein, or portion thereof;
12. With the consent of sixty percent (60%) of the member municipalities, to sell or otherwise dispose of any project or projects, or any interest therein or portion thereof. The member municipalities may enter into an agreement with the authority whereby certain types of property may be traded or otherwise disposed of without unanimous consent of the member municipalities;
13. To fix, charge and collect rents, rates, fees and charges for gas and other services, facilities and commodities sold, furnished or supplied through any project;
14. To transmit, distribute, exchange or purchase gas, and to enter into contracts for any or all such purposes;

15. To negotiate and enter into contracts for the purchase, sale, exchange, interchange, transportation, pooling, transmission, distribution, storage and processing of gas or use of gas with any municipality in this state or any other state owning gas distribution facilities, or with any municipalities, agencies or instrumentalities of any other state or with any gas association, any public or private utility, and any state, federal or municipal agency which owns gas production, transmission or distribution facilities end-use in this state or any other state;
16. To make and execute contracts and other instruments necessary or convenient in the exercise of the powers and functions of the authority under this chapter, including contracts with persons, firms, corporations and others;
17. To apply to the appropriate agencies of the state, the United States or any state thereof, and to any other proper agency for such permits, licenses, certificates or approvals as may be necessary to provide services, and to construct, maintain and operate projects in accordance with, and to obtain, hold and use, such licenses, permits, certificates or approvals in the same manner as any other person or operating unit of any other person;
18. To employ engineers, architects, geologists, economists, attorneys, real estate counselors, appraisers, financial advisors and such other consultants and employees as may be required in the judgment of the authority and to fix and pay their compensation from funds available to the authority therefore;
19. To purchase all kinds of insurance including, but not limited to, insurance against business interruption, and/or risks of damage to property;
20. To purchase gas and related services from any source on behalf of its members and other customers and to sell the same to its members and other customers in such amounts, with such characteristics, for such periods of time and under such terms and conditions as the board of commissioners shall determine;
21. To do any and all things necessary and proper to reduce the cost of gas furnished to municipalities contracting with the authority including, without limitation, entering into interest rate swaps and other arrangements for restructuring the authority's capitalization;
22. To provide management, technical, financial, informational, promotional and educational services to and for the benefit of the municipalities;
23. To do any and all things necessary, convenient or proper for the accomplishment of the objectives of this chapter and to exercise the powers granted to the authority herein.

SOURCE: MISS. CODE ANN. § 77-6-15 (1972)

Appendix B: Municipal Members of MGAM, Type of Member, and Board Membership Status During FYs 1999 Through 2003

Municipal Name	Type of Member	FY 1999	FY 2000	FY 2001	FY 2002	FY 2003	Board Member Years	Total Member Years
Artesia	Gas	*	*	*	*	*	0	5
Ashland	Gas	*	*	*	**	**	2	5
Bay Springs	Gas		**	**	**	**	4	4
Belmont	Gas	*	*	*			3	3
Booneville	Gas	**	**	**	**	**	5	5
Byhalia	Gas	**	*	**	**	**	4	5
Caledonia	Gas	**	**	**	**	**	5	5
Canton	Gas	**	**	**	**	**	5	5
Chickasawhay	Gas	**	**	**	**	**	5	5
Clarksdale	Gas	**	**				2	2
Corinth	Gas	**	**	**	**	**	5	5
Duck Hill	Gas	*	*	*	*	*	0	5
Friars Point	Gas	**	**	**	**	**	5	5
Greenwood	Electric Generation			*	*	*	3	3
Holly Springs	Gas		**	**	**	**	4	4
Iuka	Gas	*	*	*	*	*	0	5
Metcalfe	Gas	**	**	**	**	**	5	5
Olive Branch	Gas		**	**	**	**	4	4
Picayune	Gas		**	**	**	**	4	4
Raleigh	Gas	*	*	*	*	*	5	5
Senatobia	Gas		*	*	*	*	4	4
Shannon	Gas	**	**	**	**	**	5	5
Tishomingo	Gas	**	**	**	**	**	5	5
Vicksburg	Gas			*	*	*	0	3
Walnut Grove	Gas	*	*	*	*	*	0	5
Weir	Gas	**	**	**	**	**	5	5
West Lincoln	Gas	*	*	*			0	3
Yazoo City	Gas	*	*				0	2
Total		21	26	26	24	24		

Note 1: *One asterisk* designates municipalities who decided for their own reasons to not serve as a voting member on the MGAM Board of Commissioners during a fiscal year.

Note 2: *Two bold asterisks* designates municipalities who exercised their statutory right to serve as a voting member on the MGAM Board of Commissioners during a fiscal year.

Note 3: MGAM filed civil suit versus Caledonia in April 2003 concerning disputed non-payment of some gas supplies under its 1998 Prepay Gas Supply Bond Project.

SOURCE: MGAM records.

Appendix C: Basic Services for Gas and Electric Generation Members

1. Identification of gas supply options, including purchases of reserves and additional storage.
2. Assistance in becoming familiar with interpretation of data recording methods, devices and outputs.
3. Assistance in evaluating revenue requirements.
4. Preparation of annual wage and salary survey.
5. Development and maintenance of historical database on usage and cost of gas for use in forecasting system loads.
6. Use of developed databases, assistance in meeting various reporting requirements of Mississippi Public Service Commission and U.S. Department of Energy.
7. Assistance in locating and evaluating engineers qualified to perform engineering services needed for management, maintenance, and expansion of member gas systems.
8. Analysis of load requirements in relationship to capacity entitlement for the purpose of improving load factors.
9. Dissemination of all data, formulas, and programs comprising the database to each MGAM member.
10. Preparation and presentation of reports on operations to members governing board meetings as requested.
11. Assistance with marketing programs.
12. Analysis of regulatory filings of pipelines to determine impact on MGAM and its members. Presentation of findings in terms understandable to the general public to justify impact on retail rates.
13. Exploration of benefits of regional gas acquisition with other Joint action agencies.
14. Evaluation of advantages in portfolio buying.
15. Investigation of methods to enhance the load factor between summer and winter volume.
16. Research to become informed and share information about new products.
17. Investigation of potential benefits of MGAM operated corrosion control program.
18. Development of mutual aid agreements to enhance reliability and emergency backup for member systems.
19. Investigation of ways MGAM can assist through information sharing or other means in reduction of unaccounted for gas.
20. Performance of all service necessary to enhance benefits to citizens of MGAM member cities that can result from receiving an adequate, reliable, and lease cost supply of gas.

SOURCE: MGAM membership contractual agreement.

Appendix D: Additional Services for Non-Gas Acquisition Members

1. Assistance in maximizing the benefits of capacity release, transfer to alternate delivery points, and other mechanisms available for capacity utilization under applicable tariffs.
2. Action on individual member's behalf at various gas supply meetings.
3. Assistance in reconciliation of monthly invoices among pipeline and various suppliers.
4. Performance of daily/monthly nominations, reconciliation of supply and transportation related matters.
5. Preparation and timely submittal of re-nominations reflecting corrective action resulting from review of actual takes in relation to nominated volumes as required by applicable staff.
6. Preparation of a program for accurate and timely rendition to members of bills which reflect on a line-item basis the charges from each supplier and all credits and offsets to which each member is entitled.
7. Performance of any other actions necessary and appropriate to assist in accurate and timely load forecasting by member.

SOURCE: MGAM membership contractual agreement.

Appendix E: Additional Services for Gas Acquisition Members

1. Assistance in maximizing the benefits of capacity release, transfer to alternate delivery points, and other mechanisms available for capacity utilization under applicable tariffs.
2. Action on individual member's behalf at various gas supply meetings.
3. Assistance in reconciliation of monthly invoices among pipeline and various suppliers.
4. Negotiation of supply contracts.
5. Arrangement of transportation either as part of the supply contract or separately.
6. Performance of daily/monthly nominations, reconciliation of supply and transportation related matters.
7. Preparation and timely submittal of re-nominations reflecting corrective action resulting from review of actual takes in relation to nominated volumes as required by applicable staff.
8. Preparation of a program for accurate and timely rendition to members of bills which reflect on a line-item basis the charges from each supplier and all credits and offsets to which each member is entitled.
9. Monitoring of actual takes in relation to nominated volumes at prescribed intervals throughout each gas day and advice to members when imbalances develop.
10. Determination of corrective actions that may be taken when imbalance occurs to bring nominated volumes and actual takes within acceptable limits.
11. Performance of any other actions necessary and appropriate to assist in accurate and timely load forecasting by member.
12. Maintenance of ongoing strategy for negotiating supply contracts at the end of any contract term.

SOURCE: MGAM membership contractual agreement.

Appendix F: Additional Services for Electric Generation Members

1. Action on individual member's behalf at various gas supply meetings.
2. Assistance in reconciliation of monthly invoices among pipeline and various suppliers.
3. Negotiation of supply contracts.
4. Arrangement of transportation either as part of the supply contract or separately.
5. Performance of daily/monthly nominations, reconciliation of supply and transportation related matters.
6. Preparation and timely submittal of re-nominations reflecting corrective action resulting from review of actual takes in relation to nominated volumes as required by applicable staff.
7. Preparation of a program for accurate and timely rendition to members of bills which reflect on a line-item basis the charges from each supplier and all credits and offsets to which each member is entitled.
8. Monitoring of actual takes in relation to nominations at prescribed intervals throughout each month and advice to members when imbalances develop.
9. Determination of corrective actions that may be taken when imbalance occurs to bring nominated volumes and actual takes within acceptable limits.
10. Performance of any other actions necessary and appropriate to assist in accurate and timely load forecasting by member.
11. Maintenance of ongoing strategy for negotiating supply contracts at the end of any contract term.

SOURCE: MGAM membership contractual agreement.

MUNICIPAL GAS AUTHORITY OF MISSISSIPPI

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PEER Committee
Response to PEER review – Exit Conference
Municipal Gas Authority of Mississippi
P.O. Box 1204
Jackson, Mississippi 39215



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DEC 18 2003
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COMMITTEE

December 17, 2003

Dear Sirs,

Introduction:

The Municipal Gas Authority of Mississippi (MGAM) has been pleased to work with the PEER review committee in examining MGAM’s operations.

MGAM recognizes that a PEER review entails more than just a current year fiscal audit, but examines business procedures and comparisons against standard business practices. MGAM staff and management invested significant time and resources into the review process in order to insure the best and most useful results for its municipal clients.

As confirmed by this PEER analysis, MGAM is providing a high level of service to its constituents by providing reliable and economic gas management services. As a non-profit entity, MGAM regularly sources natural gas to its municipal clients at below general market prices, and provides a high level of professional, consulting, and advisory services in a difficult energy environment, under the supervision of a Board of Commissioners appointed by its own member municipals.

As a result, MGAM’s management and Board of Commissioners is generally pleased by the results of this report.

The PEER review does raise four general issues to which MGAM would like to respond and recommend action. Three of these are general procedural issues which MGAM will easily address internally. The fourth issue involves contractual decisions and preferences made by an affiliated municipal, which is really beyond MGAM’s control. Nonetheless, MGAM is committed to discussing the issues with the municipality in question and reviewing for reasonableness and fairness.

I. Cost Sharing between The Municipal Energy Agency of Mississippi (MEAM) and MGAM:

In order to reduce personnel, administrative, and overhead costs, these two organizations (MEAM and MGAM) have chosen to share administrative service costs, including salary and building costs. As the energy industry has “converged” in the past decade, this cost-

based efficiency has had a strategic benefit as well, allowing the staff to create crossover capabilities in both natural gas and electric power markets which would otherwise have to be duplicated, or would have been lost.

The arrangement has been transparent to both Boards and has been encouraged by both Boards. Both Boards review and approve the combined salary and administrative budgets, and each Board approves fund disbursements within their respective budgets. In addition, certain elements of the budget sharing, such as the hiring of a new General Manager and his associated compensation have also been approved by specific resolutions from both Boards. Nonetheless, there is currently no formal, contractual cost sharing agreement underlying this informal arrangement. It would be better to re-formalize this cost sharing arrangement.

In an organization with 6 employees, it has been fairly straightforward to estimate these shared-cost percentage splits, especially considering that several key personnel are dedicated 100% to one or the other organization, and the management positions of GM and Controller are logically 50% allocated to each organization. It would not be cost effective for either organization to implement time motion studies to further break down these percentages.

Action Item:

After review, the General Manager will present a formal cost sharing agreement, incorporating current practice, to the Boards in the near future for ratification and approval in order to formalize this arrangement as a result of the PEER review.

II. MGAM Administrative Policies and Policy Manual:

Currently, in order to provide straightforward hiring practices, employees are officially employed by MEAM. MGAM then compensates MEAM for their allocated services. For this reason, MGAM has informally adopted the use of MEAM's administrative policies. As the PEER review has pointed out, it would be more appropriate for both MEAM and MGAM to have their own respective policy manuals, though realistically, these policies will remain very similar. As a matter of course, both administrative policies will comply with applicable state law and regulations, as does the current MEAM policy manual.

Action Item:

The General Manager will present an MGAM Policy Manual, based on the existing MEAM policy manual, with appropriate differences, to the MGAM Board for formal approval.

III. Standardized Employee reviews and Salary adjustments:

MGAM is already adopting standardized employee review procedures, including examination of salary ranges, and review of existing position descriptions to see if they require updating. Employees will also receive written evaluations in addition to oral evaluation summaries, along with rigorous employee performance evaluations and evaluation feedback. Based on comparison to industry currently, MGAM staff metrics are well within, if not above, industry standard parameters. It is anticipated that internal improvements, along with implementation of some of the PEER recommendations, will place MGAM among the top energy organizations in terms of performance evaluation and salary percentile review procedures. These evaluations are based on publicly available information and knowledge of industry standards by management. It is not currently cost effective to bring in outside HR consultants for a formal review of MGAM.

Action Item:

The General Manager will implement industry standard review and performance compensation procedures, including written internal performance reviews, internal review of existing job descriptions if needed, and comparison to general industry salary ranges and metrics.

IV. Vicksburg participation in Membership benefits:

This refers to a PEER recommendation that is outside MGAM's control. At the time of joining the prepay program Vicksburg opted not to become a member of MGAM but to take advantage of the other prepay benefits only. This action was taken after review by the City Council, the Counsel to the city, and other city entities. Vicksburg made their decision after complete review and chose not to become an MGAM member. Their decision was outside of MGAM's control and is currently established in the contracts as they currently exist. Vicksburg chose this level of participation and MGAM did not prevent Vicksburg from choosing any level of participation. MGAM can only assume that Vicksburg made a reasonable evaluation of the program and a rational choice based on their evaluation of the risk parameters, possibly including their evaluation of any potential under-recovery associated with the prepay programs.

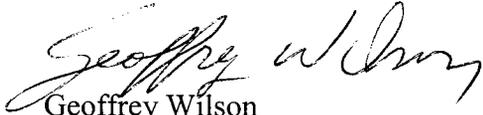
Action Item:

Make the PEER report available to Vicksburg and discuss as needed with respect to fairness and reasonableness.

Summary

MGAM is pleased to have participated in PEER's review process. The process has indicated several areas where MGAM's service and internal operations can be improved even more. It has also validated the Board's confidence in MGAM's performance of its primary role, which is to provide professional gas supply and gas management services to its constituents in order to improve their access to reliable, economical gas supplies.

Thank you,



Geoffrey Wilson
Executive Director
Municipal Gas Authority of Mississippi



Ernest Buttross
Chairman of the Board
Municipal Gas Authority of Mississippi

cc: Bill Collins
Montgomery, McGraw & Collins, PLLC
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