

MINUTES OF A REGULAR MEETING OF THE FORT PIERCE UTILITIES AUTHORITY,
WEDNESDAY JULY 5, 2006, 4:00 P.M., ENERGY SERVICES CENTER.

Members present: Chairman, Robert W. Summerhays, Jr.; Vice Chairman, Thomas K. Perona; Deputy Secretary, Pamela K. Cully; Mayor Robert J. Benton III.

Excused: Secretary, Darrell Drummond

Others Present: Director of Utilities; Director of Water/Wastewater Systems; Director of Electric & Gas Systems, Director of Corporate Services; Director of Shared Services; Internal Auditor/Risk Manager; FPUA Attorney.

Chairman Summerhays called the meeting to order.

The Invocation was given by the Revered Moses Hill of Moses Hill Ministry.

The Pledge of Allegiance was recited.

Mayor Benton arrived followed by Attorney Koblegard.

The roll was called and a quorum declared.

Mr. Boudreaux introduced Mrs. Elderbaum who was filling in for Mrs. Hayes.

Motion by Mr. Perona, seconded by Mayor Benton, and unanimously carried that the items listed on the Consent Agenda be approved:

1. Comparison of Residential Electric Rates for the month of May 2006.
2. Purchased Gas Adjustment for Firm Gas Service for the period of July 1, 2006, through July 31, 2006, will be +\$.399/CCF.

The following letters of appreciation were noted:

1. A letter from the Arc of St. Lucie County was received signed by all the children thanking the FPUA for its donation of food to the Summer Camp.
2. A letter from David Little of Little & Associates was received thanking the Board for the opportunity to assist them in the selection of the new Director of Utilities and thanking the Board for the kind word about their services.

Mr. Boudreaux introduced a request for approval of a contract with Levan Catering Services which is very important to us since we are just getting into hurricane season again. Mr. Craig Brewer explained that Levan are the folks that have helped us out the last couple of years. We want to formalize the contract with them, and also formalize an alternate contract for other agencies we might want to enter into as back-up for Levan. The Board might not be aware, but last year Levan did not actually do the catering for us. They had a truck that turned over on the way down, and they had to supply a back up

July 5, 2006

Page - 2

for us. We feel that it would put us in a better position if we were able to enter in a contract with a back-up also, so that is why we have the other contract in there.

Motion by Mrs. Cully, seconded by Mr. Perona and unanimously carried to approve the contract with Hutson Food Services, Inc. (Levan's Catering) for emergency catering service and to approve the form of the contract with an alternate caterer.

Mr. Varella requested that seeing that we have several new members as part of the Board, that the Director of Utilities will be changing over in the next month or two, and that we will have a \$55 million capital budget coming to the Board in the next few weeks, we thought it wise that we should have a training class regarding financing issues. The bond counsel, Mr. Freeman, as well as our financial advisor Mr. Owens, felt that it would help the Board gain the knowledge that they needed in order to make intelligent decisions regarding all of the issues that are facing us over the next few years. It would be great if we could have it at the end of August of 2006 and, possibly, in about November of 2006, FMPA may be having a little more advanced class that the Board, as well as staff, could participate in. He is asking for a day or two where we could all gather and have a special meeting where Mr. Owens or Mr. Freeman could give the Board a presentation. We suspect it would take about two hours.

Mr. Perona said he thinks it is a great idea. This is one of the biggest items that they actually have to do. He remembers going through this once before, and a refresher course right now, since they don't deal with this on a monthly basis, would probably be super helpful to everybody here. He knows our Chairman, Mr. Summerhays, is a financial wiz and probably knows all this stuff, but the rest of the Board have all the same type of decision making authority, and he thinks that just to be able to make an informed decision about things that they need to do is really important. He wondered if two hours are going to be enough to digest all the information. Mr. Varella replied that it will be enough to where they can keep the Board's attention to be able to absorb the information, and they will try to present it in a fashion that will be easy to understand so you can take it with you. Mr. Boudreaux mentioned that there is really a lot to absorb, and it can become like trying to get a drink of water from a fire hydrant and not getting any water at all if you have it turned on too high. So the program is to bring us all along a little bit at a time. This will be a primer here, then we can attend the FMPA session which will be a little bit more advanced, then, probably just prior to the financing issue, go back and review things. It is really important for the Board to understand what we are doing because today it is not just like going out and borrowing money in doing a fixed interest rate and it is simple, it is not, it is very complex these days. Mrs. Cully said that she would welcome it. She agrees it would be a great idea.

Mr. Boudreaux said that attached to the agenda item are two calendar printouts of August and September. If it is possible, we would like to try and garner a couple of days in the last week in August and a couple of days in the first week in September that everyone can attend. After discussion as to which time would be best, the last week of August for Ms. Cully, afternoons for Mayor Benton, and any time the last week of August and first week of September, but preferably not on Thursday, for Mr. Summerhays, Mr. Varella said that he will give Mr. Drummond a call too see his preference, will call the consultants and will try to get this solidified.

Mr. Richards introduced Resolution No. U.A. 2006-06 and presented Ms. Katrina Vaughan of Florida Gas Utility to the Board. Ms. Vaughan has been General Manager of Florida Gas Utility for thirteen

years, so she has quite a bit of experience and has nurtured this organization along from its infancy to where it is today, which is pretty substantial. The project that is being worked on very hard by FGU staff and members is Gas Supply Acquisition Project No. 2, known as GSAP #2. It is one that was presented to you in concept back at the end of last year, and is on track to go ahead and hopefully to close on a sale of bonds and purchases of gas in about a month. Last time we talked about this, the Board was asked to authorize a Letter of Intent. We are now ready to consider a resolution which will approve the form of a gas supply contract that will bind us to FGU for a portion of a supply of gas. Ms. Vaughan has kindly consented to come and present a little of what the project is and how it works, and why it is important to us.

Ms. Vaughan said that it is a pleasure for her to be here. She will try to keep this brief. She just wanted to give the Board an overview of the project. She certainly wants to be thorough enough that the Board has a good understanding, but it is a complicated and complex deal. She certainly does not want to try to get too complex but, certainly, if the Board has any questions they should let her know.

Florida Gas Utility is a project oriented agency. They have 23 members who are all municipal utilities. FMPA is one of their members as well, but they do have 23 agencies for whom they provide natural gas management services. She has been with the agency since 1993 as the general manager. It was actually created in 1989. The reason that it was created was as the interstate pipelines began to unbundle their services and municipal utilities recognized the need for going out and acquiring our gas supply, the concept of forming the agency where we would share the efficiencies of sharing transportation entitlements for the pipeline and buying more gas in bulk, that really was the genesis of Florida Gas Utility. Their role and goal really is to buy reliable gas supply at the lowest cost that they can, and as a result of that role they have undertaken projects over the years which have effectively given us below market gas prices. Just from a history of those projects, the GSAP #1 project was a prepay for natural gas that was done in 1998, it was a ten-year transaction. They issued \$115 million in fixed-rate bonds for that transaction. The Public Gas Partners, Florida Gas Utility, as well as FMPA, are members of Public Gas Partners, which was an agency that was formed among other agencies similar to ours in seven states to buy natural reserves. FPUA is a participant of GSAP #1 as well as Public Gas Partners, and the project that is being brought to the Board now is the GSAP #2 project.

The GSAP #2 project is a prepayment, as well. A prepayment really means that we will sell bonds, we will give all the money up front to the gas supplier, and for giving them the money up front there is a promise for the next 20 years that they will deliver a specified amount of gas each and every day. We are talking about over \$700 million, and so you certainly want to make sure that the party that you give that money to is somebody that you think is going to be there and able to perform for 20 years. They went through a competitive process and selected UBS NG. Some of the Board may be familiar with UBS. They are a very conservative Swiss bank. Several years ago, along with a number of other financial institutions, they got into the natural gas business. As things began to change in that business, with Enron and a lot of things that happened where some of the marketers went out of business, the banks bought some of that natural gas business and UBS, a number of years ago, became a really big player. They are a very large investment bank. As the Board can see from some of the statistics, they have \$1.5 trillion in assets and \$60 billion a year in revenues, so they are really a big bank. From a gas supply standpoint, obviously this is not just a financial transaction for us, we really need the gas, we need the molecule, so FGU certainly wanted to make sure that they were going to do business with somebody who had the ability. From a credentials standpoint, UBS is ranked number nine as far as the amount of gas that they move on a monthly and daily basis; and as far as banks that have natural gas as part of their portfolio, they are actually number one. As she said, FGU was really

concerned about giving \$700 million to somebody with a promise that they are going to deliver gas, so one of the provisions that they have, which to her is the key provision in their deal with them, is that if they fall too greatly in their rating, they are AA+ rating right now, if they come down just two notches to below AA-, then they have to post collateral; and the collateral that they post will be sufficient to pay off all the bonds. Now, just because they come down in their credit two notches does not necessarily mean that we will terminate the deal as long as the gas is still being delivered, but putting that collateral in a trustee-held account gives us the assurance that if this is just the beginning of something really bad that is going to happen, then that collateral is there and available to pay off the bonds if they should stop performing under the contract.

The GSAP #1 transaction that they did, they had done a commodity swap on that to effectively give them index, market-price gas, less a discount. This deal is being structured in the same way so that we follow the market prices on a monthly basis, whatever the index, which reflects what most people have done, have paid for their gas in that month, and so what we will have will be an index minus a discount price. She will tell you a little bit more about what she expects that to be. As she said, that index price will be achieved. There are several reasons that they are structuring it that way. One of the reasons, frankly, is that gas prices are very high right now. By making a prepayment, they are effectively creating a fixed price because they are paying a specified amount of dollars for a specified amount of gas, but because that price is very high right now, as we all know, they are reluctant to lock that fixed price in for 20 years because they believe and hope that prices will come down. So doing the structures that will follow in that index really allows them to have the ability, if prices come back down, to follow that back down as well. So they are never really out of the market. They are always competitive with what other folks are paying for their natural gas, but they are at a discount among what other folks are paying for the gas, so that gives them a competitive advantage. The participants, of course, get to enjoy the savings, and the rating agencies really prefer these types of structures. When FGU met with them and talked about this, they really are very pleased that they have this structure that keeps them at a market less a discount price because they think it creates less risk than having a fixed price for the natural gas.

Ms. Vaughan displayed a chart that shows where that discount below the market is and where it stands. When they took their formal bid in September when they selected UBS as the best all around proposer for this, what they expected the index minus to be was about \$0.27. As you can see, over the months they kept track of how that has improved, and right now we are at over \$0.48 cents. What that really means for us is that we will pay that first of the month index, minus the \$0.48 cents. So for every decatherm of gas that we get under this project we will be about that, lower than the market price is in any given month. There are a number of factors that really influence this price. As interest rates go up and it is spread between taxable and tax exempt, that is one of the forces that drive this. And the other is the actual price of natural gas. As the price of gas goes up, the actual benefit actually increases because you are applying that discount to a bigger number.

From a participant's obligation, there is a gas supply agreement that the FPUA and each of the other participants will execute. The obligation under this contract is a take and pay obligation. This is different than we had in either the GSAP #1 or the PGP, those were both take or pay obligations. This deal is a little different in that UBS really stands behind a lot of the different components of the deal, and the actual rating on the bonds will reflect UBS's rating rather than FGU's rating. So, because they stand behind the bonds, if there is any failure anywhere, they have an obligation to terminate the deal and pay on the bonds. Because of that, it was not felt that we needed to have a take or pay obligation for the participants. The only obligation is get gas as tendered. If it is delivered by UBS to FGU and the pipeline, then you must take that gas, but if for some reason they do not deliver it, we do not have

an obligation to pay for it as we did in the other projects. So it is a much better obligation for the participants, and FGU was pleased that they were able to do that with this transaction.

To give the Board a little bit more detail about FPUA's participation in the other projects, FPUA's five-year average annual usage, and we are talking about in the local distribution company (LDC) system here not the electric system, is 359,000 MMBtu per year. Our entitlement, our contract amount in the GSAP #1 transaction is about \$219,000 MMBtu per year. That was a ten-year transaction, and so we have a little over two years left on that and then those volumes will go away. The discount below index that we had on that transaction was \$0.19, and so the annual savings on that was about \$41,000. For the PGP #1, they signed up the Utilities Authority for 154,000 MMBtu. As the Board may have recalled or may have heard, when they buy physical properties of natural gas wells, those decline over time. As you begin to take the gas out, you get it out in lesser amounts every year so that the volumes that they show really are at the peak. If we could take a snapshot, this is how much we ask for and on any given day this is what that volume is, but then it is going to decline over time what we would get out of the properties that we own. The PGP #2 is a project that Florida Gas Utility did not participate in with Public Gas Partners because they did not have enough of their members who were interested in participating in that particular project, but as she understands it, the FPUA is participating in that project through FMPA. FPUA's entitlements under that project are 36,500 MMBtu. Because we do have all of these entitlements in these other projects, the amount that we are going to be entering in the GSAP #2 is really a smaller number, which is 28,750 MMBtu, and that really would not even start until the end of the GSAP #1 obligation. So what we see here is, if we estimate at \$0.45, as we saw on the chart right now we are at almost \$0.49, but just conservatively, if we lose a little bit of the economics between now and when we close, let us say at \$0.45, then what we are looking at is about \$13,000 a year in benefit from this project. As shown at the bottom of the chart just to really give us an overview of the entire project, FPUA's volumes are really very small compared with the total project, they are only about 1% of the total project, but if we look at the entire project for all the participants, we are looking at almost \$70 million of savings over the 20 years. It is a sizeable savings for the participants.

Just again to talk about the benefits of a prepay, it certainly provides a reliable gas supply. Because, they are giving the money up front, when they are negotiating the supply contract they are able to say, "You cannot claim force majeure under some of the standard provisions that you claim force majeure on;" and there were a number of security type provisions in there. So it really is UBS's first priority gas. If there is a hurricane and they have any gas delivered at all, they are going to deliver it to us first, because the consequences of not delivering to us are very dire for them. They certainly do not want this big deal to unravel, where then they have to pay off the bonds and give the money back. So it really yields a very reliable gas supply. The index less a known discount pricing structure, we will know on the day that we do the deal and those numbers get locked in for the entire 20 years. So, if it is \$0.45, then we know that each and every molecule of gas that we get under this will be priced at the market minus that \$0.45 so that savings gets locked in at the very beginning. This is a loss balance sheet transaction. That is more important to some folks than it is to others. But for those participants who go out into the bond market, this really allows FGU to hold the debt for this and it does not show up as debt on their books, it is an O&M expense for them. So that is very beneficial for folks that are in the bond market a lot. Of course, it spreads the costs and the risks out among a lot of participants. This is a type of transaction that it would be very difficult for an entity to do on their own, and so FGU is able to aggregate this and bring the benefits to everyone.

To talk a little more about some of the built-in protections, if UBS fails to deliver, we will not have an obligation to pay the debt service because they ultimately will be responsible for that. As she said

July 5, 2006

Page - 6

before, UBS is currently rated AA+. If that declines to below the AA-, then they have to post the collateral. That is the key, the most important provision in the whole transaction, and if they default, if they fail to deliver gas, if they fail to make payment, if they fail to post collateral, if there is any kind of failure, then they are required to pay off the bonds, the swap termination payment. Any obligations that FGU and the system have will be eliminated by a payment from UBS.

Next steps, they are in the process right now. She thinks as of today they have about two-thirds of FGU's members that have signed letters of intent, have taken formal approval by their governing boards. The others are scheduled in the next couple of weeks, and so they plan to really issue the bonds and execute the prepayment the first week in August, and they expect to have gas delivery beginning on September 1, 2006.

Ms. Vaughan said she would be happy to entertain any questions.

Mr. Perona asked who are some of FGU's biggest users in this project. Ms. Vaughan replied that FMPA is participating in this project, OUC will be participating, Lakeland, the City of Clearwater. The City of Clearwater is their largest LDC system. The others are electric users. They really dwarf the volume in there. But really all of FGU members will be participating. There are a couple that will not be, but most of them will be.

Motion by Mr. Perona, seconded by Ms. Cully, and unanimously carried to approve Resolution No. U.A. 2006-06 - Form of Gas Supply Agreement No. 2.

Mr. Summerhays said that going back to new business Ms. Cully has a motion.

Motion by Ms. Cully, seconded by Mayor Benton, and unanimously carried to excuse Mr. Drummond.

Mr. Boudreaux presented an item on the recalculation of the Director of Utilities' final average salary for the purposes of retirement. He said he would not regurgitate the entire memo he sent to the Board which is included in the agenda. Just briefly, ten years ago, the Board agreed to pay retirement contributions for himself, which was at the time 7.16% of gross salary, and the Board did and has done that for the last ten years. The contribution changed, he thinks about five years ago, to 6.16%. He did some rough calculations, and he thinks the total amount was in the vicinity of \$100,000 over the ten-year period. Mr. Varella may have some closer figures, he is sure he has done some calculations. In the process of the finance department calculating the highest five-year salary for purposes of his retirement, he discovered that the contribution that the Board made for his retirement to the Retirement Board on his behalf was not included in gross salary for the purposes of gross salary. He had saved letters from Berger, Toombs Co., the Director of Finance to the City, who is the Secretary of the Retirement Board, and Mr. Koblegard, and all agreed, at that time, that the contribution should have been characterized as wages and salary. Through an oversight by the Finance Department it was not included in his total salary. He is asking that the Board direct the Finance Department to recalculate that and also any monies that may be due to the retirement system which, again, would be on the order of an average of 6.5% of the \$100,000, if that is the right figure, because he thinks we would owe the retirement system some monies since that was not included in the total wage. But he will leave that to Mr. Varella to figure out. He asked the Board to address this item because it is to his benefit, personally, and he thinks it is an issue that the Board needs to decide upon. He asked for the Board's

approval to the two items that he included in the motion, one to recalculate the high five average salary and also to calculate any payments that are due to the retirement fund to make this happen.

Mr. Summerhays said this hits an area, and it is one of the areas he is very familiar with in his practice. He will carry on for a little bit, before we go to any other questions or comments. There is no question, although he is sure that the Board at the time thought that they were doing something good for Mr. Boudreaux, there is no question that this contribution was wages, and upon reading the definition of income in the Retirement Board, that first comment was wages for federal purposes, it is exempt from federal income tax wages but it is subject otherwise, it is still wages. And reading the definition in there, on the Retirement Board's definition, it is also clear that it is wages for that purpose. So it would seem to him that it would be appropriate to make this correction. Really, the Board accomplished nothing in doing it the way that they did, it would have been more clear and there undoubtedly would not have been this problem if they had just given Mr. Boudreaux a 7.16% raise and, of course, that would have continued through and he would have made more money anyway. So he would recommend that the Board approve this recommendation. He then asked for questions or comments.

Motion by Mayor Benton, seconded by Mr. Perona, and unanimously carried to approve the recalculation of the Director of Utilities' final average salary for the purposes of retirement and inclusion of the amount reimbursed to him for his contribution to the City of Fort Pierce Retirement System as salary; and approve payment of the required amount to the Retirement System to cover that portion of the employee contribution reimbursement not paid to the Retirement System.

Mayor Benton mentioned that there will be a workshop next Wednesday. He asks this Board to go into that workshop with an open mind in looking for a solution to the problem because this is an item for both Boards to deal with. He thinks the discrepancies are between our City Manager and the Director. He thinks the two Boards need to come to some type of an agreement, so he would ask this Board to go into that meeting with an open mind. Mr. Perona asked whether the City Commission is going to be entering into that meeting with the same open mind. Mayor Benton said he knows he will be, and he thinks three of them will be. He thinks there are two, he cannot speak for them, but knowing some of the discussion he got into at a Commission meeting just recently, when he was ordered to come to this meeting and tell this Board what they were going to do, he told that Commissioner that that is not what he felt he was asked to do. He thinks we just need to look for a solution to this because it was a new City code, it was an Ordinance that was put forward several years ago. It has not become an issue until now, but no citizens, nobody from the Utilities Authority opposed that Ordinance, and he thinks now it is affecting us and it is time to look for solutions because it will benefit the public and this organization. Mr. Summerhays said that his understanding is that the meeting is here. Mr. Boudreaux confirmed that the meeting is scheduled for here.

Mr. Boudreaux said he thinks we better plan on being back in this room for the next subsequent FPUA Board meetings because he does not know when City Hall is going to be reopened. So he thinks we should plan on being here unless we inform the Board otherwise.

Ms. Cully inquired if the joint meeting was at 9:00 a.m. Mr. Boudreaux replied that it was.

July 5, 2006

Page - 8

Mayor Benton mentioned that it is his understanding that the next City Commission meeting will be at their Commission Chambers. They told the contractor to clean up and be ready. Whether it will be televised or not, that is in question, but they told the County Commission that they will be back and they have advertised that. So, he ventures to say, we can have it there, and because their Commission meeting is Monday night and this meeting is Tuesday afternoon, it should be in order. Mr. Perona asked whether we could leave it here until informed otherwise. Mr. Boudreaux said the Board has to make a decision one way or the other. Mayor Benton said it has to be advertised. Mr. Perona said he is making a motion that we have the meeting here because it is a for sure thing. Once we know the Commission Chambers are ready, we can go ahead and return back to that if it is the desire of the Board.

Motion by Mr. Perona, seconded by Ms. Cully, and unanimously carried that the next Board meeting be held at the Energy Services Center facility.

There being no further business, the meeting was adjourned.

ATTEST:

Secretary

Chairman