

MINUTES OF A REGULAR MEETING OF THE FORT PIERCE UTILITIES AUTHORITY,
TUESDAY, FEBRUARY 21, 2006, 4:00 P.M., CITY COMMISSION CHAMBERS.

Members Present: Chairman, Robert W. Summerhays, Jr.; Vice Chairman, Thomas K. Perona; Deputy Secretary, Pamela K. Cully; Mayor Robert J. Benton III; City Manager/Ex-Officio Member Dennis Beach.

Not present: Vice Chairman, Darrell Drummond

Others Present: Director of Utilities; Director of Electric/Gas Systems; Director Water/Wastewater Systems; Director of Corporate Services; Director of Shared Services; FPUA Attorney; Community and Corporate Relations Manager; Purchasing Coordinator.

Chairman Summerhays called the meeting to order.

The Invocation was given by Pastor Todd Smith of Common Ground Vineyard Church.

The Pledge of Allegiance was recited.

The roll was called and a quorum declared.

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

1. Approval of the Minutes of the Regular Meeting of February 7, 2006.
2. Purchased Gas Adjustment for Firm Service for the period of March 1, 2006 through March 31, 2006 will be +\$1.46/CCF.

Mr. Summerhays noted that the Purchased Gas has been adjusted down, and he is pleased to see that.

Mayor Benton and City Manager Beach entered the meeting.

Mr. Boudreaux introduced Mr. Roger Fontes, General Manager of Florida Municipal Power Agency, and Rick Casey, Assistant General Manager. They are here today to give the Board a briefing on the Taylor Energy Center project located in Taylor County in the vicinity of Perry, Florida. This is the latest power project undertaking by FMPPA.

Mr. Fontes said he thought he would give the Board, first, a quick update on the Treasure Coast Energy Center. He showed the Board an artist's conception of the first 300 megawatts unit. The St. Lucie County Board of County Commissioners approved a conditional use permit a few months ago. Last Month, we successfully presented testimony in an adjudicatory hearing to get the final licenses and permits for the project. The Department of Environmental Protection staff recommended approval of the project, as has every other agency that has had to deal with it. He said we expect to have the Administrative Law Judge's ruling within a month and a half and go to the Governor's Council. We hope to break ground early this summer for this important power resource. Construction should begin in August of 2006. There are some preliminary preparations being made in the area. You will see more of staff and consultants as we mobilize to construct the facility. Some access road work will be done. By and large the project is on schedule at or below budget and is able to meet all the requirements being placed upon it.

Mayor Benton asked if this means our current plant will be decommissioned by May of 2008. Mr. Fontes said that is the plan. Mr. Boudreaux said we did anticipate this question coming up. The answer to that question is, yes, we are planning to decommission the Henry King Plant. Probably, in the next few months we will be giving FMPA a two year notice to decommission the plant. He says that, because everything has an "if" in it. We will decommission the King Plant if everything goes normally, and if nothing bad happens within the State that will cause a serious deficit in power supply. That is very unlikely, but he does recall one time over the past ten years when there was an accident at the Tampa Electric Gannon Power Plant. They had a very large unit out of service for several months, and we were scrambling in the State to make up power. FPUA will be operating the new plant under contract to FMPA. If everything goes normally, he would say, probably, within a few months of the new plant being up and running, we will go through the process of decommissioning the Henry King Plant. It will probably be a period of about six months when everyone is comfortable with the new plant. As a reminder, only FPUA can decide when the King Plant is decommissioned. FMPA cannot decide that. It will be by mutual agreement with FMPA. To answer the Mayor's question, the short answer is yes.

Mr. Fontes said he would like to acknowledge the Mayor's attendance and help at the hearing we had. He thanks him for speaking up for the project and helping the people of the entire region develop a new power resource that will be modern, clean and cost effective. Mayor Benton said he was glad to be there. Next time, he thinks he should be included in those discussions before it gets to a public meeting, because it could have been agreed upon, and we could have all gone home earlier that night. Mr. Fontes agreed.

Mr. Fontes said Taylor Energy Center is named after the County in which we are going to locate the project.

We want to build coal fired plants, because natural gas has gotten very expensive, and the price is very volatile. Fortunately, natural gas prices have fallen off sharply in the last month, but they are still \$7.50 per million btu's, which compares unfavorably to where they were at \$2.25 for twenty years until early 2000. FMPA was very fortunate in 1999 to have the bulk of its power provided by coal fired power plants. Since we haven't built another coal plant and since some contracts went away that were for coal fired power plants, natural gas has become the fuel of choice for FMPA to provide reliable service to its communities. We are approaching numbers that are not good when half of our supply is natural gas. Through a process of planning and member approvals, we have been told to achieve greater fuel diversity at the lowest possible cost and mitigate fuel cost volatility. We have done that by choosing a type of coal fired power plant that will meet our needs, that's commercially available today, to the size we need and with an advantageous location. FMPA was the first utility in Florida to propose a new coal fired power plant. We did that in July 2003. We spent about \$80,000 to develop a proposal with some consulting engineers. We sent that proposal to all municipal utilities in the State and asked for joint participants. From that we have built a project since that time. We are a little late in getting things to the jumping off point, because we had picked a site in Gainesville to build at an existing site. Gainesville City Council decided at the last minute that they did not want to build a joint plant there. We lost about 14 months there.

Mr. Fontes said if you read the newspapers, you've probably read that coal prices have also gone up in the last few years, and that's true. They haven't risen as dramatically as natural gas, but coal has become more expensive as foreign countries buy our coal. This is a new thing that has happened in the current decade. China, India and Europe have been buying coal from the United States and are paying

more for it than our utilities are. The country has hundreds of years of coal supply available from known deposits ready to be mined.

He showed the Board a price chart. Coal prices have been and are projected to be very steady. In 1999 to 2000, when we recommended looking at a coal plant, coal and gas were kind of on parity. Both were going up a little. Our recommendation was to investigate a coal plant for fuel diversity, not necessarily because it would save money. Today, our recommendation is the same, except we add that it will be cheaper. The bus bar cost of power out of a coal plant will be almost 50% cheaper than the Treasure Coast Energy Center. It will be about \$48 per megawatt hour, versus \$66 per megawatt hour. Coal plants cost a lot more to build and take a lot longer to build. That is the advantage of having a coal plant as a base load plant. Once you start it, you want to run it and take advantage of cheaper operating costs to save consumers money.

Ms. Cully asked why it takes longer and costs more to build a coal fired plant. Mr. Fontes said it is bigger. We are building an 800 megawatt coal plant. The TCEC will be 300 megawatts. It takes 3,300 acres of land for a coal fired plant along with coal conveyor belts and rail lines. The large part of a coal fired power plant is the boiler where you convert water to steam used to turn a turbine and make electricity. The boiler has to be fabricated on site, a very complicated process. It is a very high pressure boiler system. At the TCEC we will have almost a prefabricated boiler that will be delivered in sections. It will go up in a few weeks and be welded together.

Ms. Cully said the County recently decided against a coal fired plant coming into this community. Has this plant already been permitted? Mr. Fontes said no, it has not. We have taken an option out on the land. We had to get land under contract in order to do the environmental work and permitting on a specific property. We had to have access to it and know that we were going to be able to build on it if possible. We are in the process right now of doing two things. We are soliciting bids from competitive power suppliers who could potentially supply the equivalent amount of power cheaper to us under contract as opposed to having us build the unit. We expect to have two bidders by the end of the month to provide bids to us and our partners. If that doesn't work out as the least cost alternative, we are developing, simultaneously, a licensing application that will go to the State. The County of Taylor will still have to approve the project and do a comprehensive general plan amendment, which we've filed for and will not happen until this summer. Ms. Cully asked if Mr. Fontes knows if Taylor County is looking favorably upon this project. Mr. Fontes said they voted 5 – 0 to support the project. There are on-going discussions about emergency medical technicians and contributions to the County in lieu of taxes and things of that nature. The site is near a pulp and paper operation and a huge County solid waste disposal site, nearby.

Mr. Fontes said we always get questions as to whether we are doing the right thing by way of the environment. Are we building the cleanest possible plant and being good environmental stewards? We think we are, and we've got some comparisons here. FMPA owns part of Stanton I and II just north of Orlando. It looks like at North Side, which, as we stand here, today, is the most modern, clean coal-fired power plant in Florida. It was built by Jacksonville Electric Authority. It consists of two 250 megawatt units. It is state of the art, one of the largest in the world. It is the first of its kind of its size. Because of that, they were able to get a large Department of Energy grant to help construct it. We looked at that technology to partner with others. We needed 600 or 800 megawatts in order for the four partners to get sufficient power to meet their needs. It wasn't a viable option in terms of size. We also looked at a technology, which we selected, of pulverized coal. It is a super critical type of design where the mission parameters by and large are the same. The particulate matter is a little higher. In the Taylor unit it is 4 parts per thousand greater, which is about a .4% increase, less than half a percent

more. It is a little more, but there is also less nitrous oxides and sulphur. We think it is a good plant. We think it will be permitted if we have to go to the licensing stage.

Mr. Fontes said the partners we are building the coal fired plant with are new for FMPA. These are municipal utilities in Florida that we have never partnered with before. JEA is the third largest municipal utility in the country. They are the project manager. They staff it. They provide the engineers to help move the project forward. There is an owners' committee. Mr. Casey helped set that up and serves on the owners' committee representing all of us at the meetings. Reedy Creek Improvement District serves utility services at the Disney property – water, wastewater, electric and fire. The City of Tallahassee Council had a referendum on whether or not they should participate in the project, and the referendum passed 60/40 in November.

He showed the Board the site location. It is located in the Big Bend of Florida. It is an area where the population is below State average. They are looking forward to having a large employer, a plant like ours that brings other attributes into the community. Mr. Casey attended a public workshop held for any resident to come in and speak. We took a poll after the folks that were there saw pictures of the plant and some of the emissions parameters. We got around a 70% approval rating from members of the public who were present at the first of our three public meeting sessions in Taylor County.

Assuming we go forward to build this plant, he thinks we can get licensing done in a short time. Construction will take until 2012. Phase II-B represents a set of activities to get the project to go or no-go in mid 2009. Assuming competitive bids are not as cost effective as building the unit ourselves, we would expect to bring our Board of Directors a decision to go forward to build our part of the plant in early 2008. At that point, the contracts are written, such that, if we decide we don't want to do it for whatever reason, we can exit the project, no harm, no foul. He assured the Board that he and staff are committed to ensure that every resource acquired for the members will be the most cost effective for ratepayers. We will go through a very rigorous evaluation of the power supply proposals we will receive. We did the same thing for the Treasure Coast Energy Center. We put out a request for competitive bids for that project and evaluated the Energy Center as the lowest cost alternative. We had an independent consultant review that result and confirm it. We also went to the State Public Service Commission through a process of determination of need. The PSC staff reviewed our evaluation of the need for the power and our evaluation for the cost effectiveness and concurred with our conclusion that it was the best alternative.

Mr. Fontes said the RFP will be evaluated. That should take about 60 days. If that is the best alternative, we will begin negotiations with the low bidder. If not, we will be going forward with preparation to file a licensing application with the State. He stated we think there are advantages to having a competitive bid to see what others can do by way of building a plant. He is a little skeptical about other bidders. He will tell you why. The two other bidders are private companies. They will have to raise capital, about \$1.6 billion, using taxable instruments. Those are anywhere from 9.5 to 11.5, depending on where you are borrowing money and how good your credit is. One of the companies is a huge corporation, triple B rated, which is 2 points above the lowest rating before junk. FMPA is rated A+ and hope to get an AA rating next week in New York City. He can borrow, today, enough money to build our share of the coal plant at under 4%. A plant where the fixed costs are the largest component of the bus bar cost, he thinks it will be hard for a private company to put a bid on the table that reflects costs of capital anywhere near what we can borrow money for. It is an advantage we have under the tax codes. We expect to take advantage of it and use it for the benefit of our ratepayers.

We are very happy to have experienced partners. JEA runs coal fired power plants, today. They have built them. Even though we tried to be a partner in Florida Power and Light's coal plant, there is no other proposed coal plant for the State. We are proud that we knew this would be important for us and got started early. There is not another coal plant that has gotten as far into the process as ours has.

Mrs. Cully asked if the 4% Mr. Fontes referred to is a fixed rate. Mr. Fontes said it is fixed throughout the entire project from 2012 to 2037. We have suggested to the FMPA Board that they consider, depending on how the bids come in, borrowing a sufficient amount of money now to build their share of the plant. We think there are literally tens of millions of dollars in net present value available to the members should they want to borrow the money now. It is legal to do so. We would sock the money away until we are ready to go into construction. We don't know where interest rates will be in 2008, when we start to borrow a lot to do our construction program.

Mayor Benton asked about nuclear power. Are we going to aim in that direction? Mr. Fontes said FMPA is too small to undertake a nuclear facility on its own. We are co-owners in the St. Lucie nuclear plant Unit No. 2. We have a verbal commitment from the President of Florida Power and Light that if they go forward with a nuclear plant, either at Turkey Point or St. Lucie, we will be offered a participation share. He would be very surprised if FMPA's Board doesn't want to do something along those lines. He would recommend it as a fuel diversification. Recently, the State's municipal utilities, who have been working closely together, sent a joint letter signed by all the managers, himself included, to the President of Florida Power Corporation in Raleigh, NC, and to the President of FPL, making sure they were aware of our keen interest in participating in any nuclear plants they would construct. There are some federal requirements that would, ultimately, provide an opportunity for us to participate, because the technology was developed by the federal government through the Atomic Energy Commission. A precedent has been set for nuclear power being made available for all utilities. Mayor Benton asked if somebody in Florida is looking to permit one now. Mr. Fontes said Progress Energy had a press release, but when we checked it out, it is a plant in the Carolinas, not in Florida. We thought they were going to expand something at the Crystal River facility. They have nuclear and coal there.

One of the reasons for moving quickly on the nuclear plants is in the Energy Policy Act passed this past summer, he believes, the first five or six reactors that are permitted, receive a penny and a half subsidy from the federal government as a production incentive. There have been a rash of announcements about building nuclear plants. Mayor Benton said with the problem we recently had with coal, they are saying the cost of coal is going to go way up, because the mines will have to go through more strict procedures and be built better. By the time we get into a coal plant, the prices will be up. Nuclear has always been very safe in this country. There was one problem that probably shouldn't have happened. He thinks we need to get back to looking at nuclear. Mr. Fontes agrees we should look at nuclear, but doesn't quite agree on the cost of coal. Providing greater mining safety and providing remote telephone hook ups for miners in the mines, the numbers he has seen do not suggest that would create a large cost exposure to the companies that mine coal. They can do it within the bounds of reasonableness. And, there are foreign suppliers of coal: Australia and Columbia and others that could make it available to us. Our long term forecast for coal is fairly stable, but with some escalation. He would not recommend you put all of your eggs in the nuclear basket either. Let's have a mix of resources available to us and kind of get off the natural gas binge we've been on.

Mr. Perona said from the great speakers we've had at the APPA conventions and the FMPA/FMEA conferences, there has always been this attitude by these people that don't want it around them. On the other side, you get this demand of people coming into the State of Florida and the demand for power

going up. It must be an absolute horror story of thought of what we're going to do with this thing. The areas you can find to put in plants with the least amount of resistance has got to be getting really tough. Mr. Fontes said it is. Water is starting to be a big problem. One of the nice features of the Taylor County location is there is a lot of ground water available that is non-potable and can be used in the plant. All of his colleagues at the CEO level of private and public utilities and co-ops in the State are concerned about the load that is growing in Florida. We do have some old power plants that need retiring, deserve to be retired, and we have a lot of load growth in the State. Trying to find acceptable sites for clean plants is not easy. You saw a perfect example of that here in your own back yard, recently. He has talked to his counter parties amongst the municipal utilities about establishing a larger consortium of all of us that would go out as a group, acquire land in power parks that are situated near transmission lines and rail haul and high pressure gas pipelines, etc. and take advantages of economies of scale and have a plant constructor/owner-operator entity to help us to develop the projects we will need in the long haul to meet our loads. It is a concern.

Chairman Summerhays thanked Mr. Fontes for his presentation.

Mr. Varella presented the November 2005 Operating Results.

Revenues are up, mainly, because of higher energy prices. Expenses are up more, and our net operating income is really lower than last year, because our operating expenses are higher. Our unit sales in electric were up slightly; however, water, wastewater and gas were all down. Our customer accounts are strong. It is the first two months of the year. We had a hurricane in October, very mild temperatures through the first four months of the year. He is not expecting much improvement. He is surprised. He thinks we are still reaping the effects of the hurricanes a year and a half ago. Although we are billing more customers than we did a year ago, he thinks a lot of people are still living in trailers; businesses are not in town anymore; the new customers we're adding with the new subdivisions and apartments are adding to the customer counts.

Mr. Summerhays said this report is for November. Are we going to catch up soon? Mr. Varella said we are trying to catch up. We are trying to finish up the audit, which we hope to have this week and bring it to the Board in the next couple of weeks. Where we're having the statistical problem in our new computer system, Cogsdale is working with us, as well as Norwich, Connecticut, trying to resolve the problem. It seems we are the only two utilities that have more than just water and wastewater. We are having a hard time pulling our statistics together, so we're estimating our statistics based on levels we are buying. Hopefully, we will get that situation resolved soon, too. We are doing everything we can to catch up, in addition to trying to meet the FEMA requirements to get the projects done relative to Hurricane Wilma.

Mr. Bill Thiess presented a request for award of Bid 5589. This project has to do with three mains: the two 16-inch force mains going from Lift Station A to the Water Reclamation Facility on the east side of the intracoastal channel, and the 16-inch water main on the south side of South Bridge, west of the intracoastal channel. All three of those mains were eroded during the hurricane. We brought another project to the Board on the water main to stabilize the first 80 feet that were severely eroded and undermined. That project has been done on an emergency basis. For this project, we put specifications together with a bid package and bid it through City Purchasing. We got two bids back. There was quite a discrepancy in the two bids. The low bid is from Coastal Marine Construction. There is about \$145,000 difference between the low bid and the second bid. We checked references, and they checked

out very well. It seems to be a very competent company. We are recommending awarding the contract to Coastal. We added a 15% contingency in the contract, because a lot of times we get into these jobs in the river where it is changing all the time, and find there is a little more to be covered than we estimated. We did file with FEMA for this one, and we filed an extension, so we're good on the timeframe. We are anticipating this will be reimbursed at the 95% level for Frances and Jeanne like the other projects were.

Motion by Mr. Perona, seconded by Mrs. Cully and unanimously carried to award bid No. 5589 to Coastal Marine Construction, Inc. in the total amount not to exceed \$683,905 for subaqueous water and force main stabilization.

Mr. Boudreaux said one of the things we would like to have the Board decide on this afternoon is a date to review resumes. We are anticipating receiving resumes on the 28th of February from David Little. The dates he has include Thursday, March 2nd, which is also the meeting with St. Lucie County and the City Commission at 2:00 p.m. in the County Commission Chambers. The next date was Friday morning, March 3rd, and, then, Monday afternoon, March 6th, and Wednesday, March 8th at any time other than noon, as Louis Haynes would be unable to attend at that time.

The Board set the date of Thursday, March 2nd, 9:00 a.m. in the Second Street Center Conference Room for a Special Meeting to consider resumes for the position of Director of Utilities.

Mr. Boudreaux said the annual conference with APPA is being held in Chicago this year. The dates are June 10th through the 14th. Each Board Member was given a conference brochure, and if you plan to attend, you need to let Mrs. Hayes know about your travel arrangements. Mr. Summerhays said he would like to make it, but will be unable to go this year. He is going on an Alaskan cruise at the same time.

Mr. Boudreaux said the OCI contract for construction of improvements at the Causeway Substation was signed. It was approved at the last meeting, they accepted the changes, and it was signed.

Mr. Perona said he had his first meeting with the Joint Task Force. He said it was good to see a different demeanor of the County, City and UA working hard together, except for, maybe, one person. We held everybody's feet to the fire and came up with a unanimous decision. We are going into the joint meeting with a lot of momentum and encouragement. He thinks things are going to get done.

Mayor Benton said in some discussion he had today with Senator Pruitt, he heard that Representative Mayfield of Indian River County has a bill in Tallahassee for \$10 million that would go to South Florida Water Management District, but it would be used for the relocation of the Wastewater Treatment Plant from the island. It would help. He hasn't found out the details yet. He is going to Tallahassee tomorrow, and, hopefully, he can get the details on this bill. Mr. Summerhays said that would go a long way in reducing the cost. Mayor Benton said when we discussed this issue on the west coast, they received, he believes, upwards to \$80 million for a facility over there. It was interesting, because when we gave our presentation in front of our legislative delegation, Representative Mayfield

February 21, 2006

Page - 8

was pushing more for the private sector to come in, so it was interesting that things have turned around. We'll see if there are any strings attached, too.

There being no further comments, the meeting was adjourned.

ATTEST:

Secretary

Chairman