

MINUTES OF A REGULAR MEETING OF THE FORT PIERCE UTILITIES AUTHORITY,  
TUESDAY, AUGUST 21, 2007, 4:00 P.M., CITY COMMISSION CHAMBERS.

Members Present: Chairman, Thomas K. Perona; Secretary, Pamela K. Cully; Deputy Secretary, Robert W. Summerhays, Jr.; Mayor Robert J. Benton, III; Acting City Manager, David Recor.

Excused: Vice Chairman, Darrell Drummond

Others Present: Director of Utilities; Director of Electric/Gas systems; Director of Shared Services; Community and Corporate Relations Manager; Acting Director of Corporate Services; Risk Manager; Director of Water/Wastewater Systems; Purchasing Manager.

Chairman Perona called the meeting to order.

The Invocation was given by Mr. Bill Baldwin

The Pledge of Allegiance was recited.

The roll was called and a quorum declared.

Motion by Mr. Summerhays, seconded by Mayor Benton and unanimously carried to excuse Mr. Drummond from this meeting.

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Mr. Summerhays requested Item A-4 be removed from the Consent Agenda for discussion separately.

Motion by Mr. Summerhays, seconded by Mrs. Cully and unanimously carried that the items on the Consent Agenda be approved with exception of item A-4:

1. Approval of the Minutes of the Regular Meeting of August 7, 2007.
2. Approve Blanket Purchase Order to Florida Gas Utility for natural gas purchases in the amount of \$2,700,000 for Fiscal Year 2008.
3. Bid 5731: Award bid to lowest and best bidder, Lucier Chemical Industries, Ltd. (LCI, Ltd.) for approximately 90 tons of hydrofluorosilicic Acid in the amount of \$394/ton for an estimated annual total cost of \$35,460.00 for the period of August 21, 2007, through August 20, 2008, with no renewal options.
4. Removed for consideration separately.

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Mr. Summerhays explained that he requested Item 4 to be removed from the Consent Agenda because among the engineering firms listed in this item, Engineering, Design and Construction, is owned by his son-in-law, so he will have to recuse himself from this vote in order to avoid the appearance of impropriety.

Motion by Mayor Benton, seconded by Mrs. Cully and carried with Mrs. Cully, Mayor Benton and Mr. Perona voting yes to authorize staff to negotiate contracts under RFQ No. 5726 for

Continuing Professional Engineering and Design Build Services related to water, wastewater and gas systems with selected firms for a four-year term with three one-year renewal options. Mr. Summerhays abstained.

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The following letters of appreciation were noted:

1. A note was received from Grace Emmanuel Church thanking FPUA employees for the donation of 296.5 pounds of non-perishable food items to their food pantry for the month of June.
2. A letter was received from Parkview Baptist Church thanking FPUA employees for donations to their food pantry for the Month of July totaling 355.5 pounds, as well as, school supplies for needy families.

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Mrs. Nina Hurtubise presented the Financial Operating Results for the month of June, 2007.

Mrs. Hurtubise explained this is a quarterly report, so there is more information in the agenda packets than usually seen. We are continuing to see the same trend we have seen in months past. We are seeing downward trends in revenues, upward trends in expenses, and downward trends in consumption. Year to date, we are showing a net loss for City distribution and capital contributions of \$174,000. We did see a \$65,000 loss before distribution and capital contributions in the month of June. You don't normally see a balance sheet presented in the financial statements, but we are showing a deficit in unrestricted pooled cash investments of \$98,000. This is something we had warned about ten months ago. We will draw down the pooled loan funds. That is why we have them there. We will do that before the end of the fiscal year, and, hopefully, before the end of this month, so that will be remedied.

Mr. Summerhays said he notices with some dismay that we have nearly an \$11 million reduction in unrestricted net operating capital. Mrs. Hurtubise said that is correct, but she has a glimmer of hope down the road. The statistics are a little bit better for the month of June in Electric and Gas, but, still, Water, Wastewater and Gas unit sales are down. Electric is up a little bit from the same 9 months in 2006. With regard to revenues, we are flat with Water and Wastewater, but both Electric and Gas are down.

Mrs. Hurtubise said in September 2006, we posted a number of audit adjustments that caused our operating income for that particular month to be a deficit in the vicinity of \$3 million. It primarily had to do with the Power Plant's depreciation audit adjustment. Once that month falls off of this rolling average, it will look much better. Right now it is dragging it down. It is actually negative for the 12 months ended June 2007. The debt service coverage is 1.88%. It is continuing to decrease, but that, also, will rebound once the numbers from September 2006, fall off of the 12 month rolling average. The biggest cost increases are depreciation, interest expense and operating supplies. Our materials costs have truly gone through the roof. She is sure anyone who has done any construction or reconstruction during the last couple of years has seen the same thing. We are not insulated from that in any way. It is an increased cost of doing business that we cannot avoid.

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Mrs. Hurtubise stated our power and natural gas costs have decreased in this year, although we are expecting them to increase. Our distribution was less this year due to the 40% limitation. We hope to be able to bring that back up to the 6% calculation in future years. Because we have been working diligently on some major projects, our capitalized interest has increased, thereby, reducing our interest expenses on an operating basis.

For the first nine months of FY 2007, based on current information, distribution to the City does appear to again be limited to the 40% calculation. For nine months, it computes to approximately \$2.1 million.

Mr. Summerhays said he is a little concerned that the unaccounted for water has gone up another 3/4 of a percent. Mrs. Hurtubise said we are actively investigating that. We have been putting together some charts. The unaccounted for water had been going down, and she thinks it bottomed out in 2005. Since then it has been going up. We haven't found anything really obvious. Perhaps statistics at the water plant are missing, and if we need to, we will restate those statistics. It will help some, but it isn't going to eliminate the problem. We will keep looking.

Mayor Benton said other utilities, especially those in this region, are dealing with the same things we are dealing with. Are they looking at the same financial concerns we are? Mrs. Hurtubise said she has not compared but will look into that. Mayor Benton said he realizes a lot of these problems are out of our hands, but he would imagine it is hitting everybody, especially with the water restrictions. Mrs. Hurtubise said she will have a comparison at the next Board Meeting or at least in the next month. Mayor Benton said it would surprise him if it was just us. Mrs. Hurtubise said she has received a number of requests asking for impacts of the water restrictions on our revenues. It is kind of hard to quantify, but there was an obvious drop off in early April when the restrictions first went into effect.

Mayor Benton said it is strange that they are dumping water like they are, and we still can only water twice a week. He doesn't understand that. He wishes somebody from South Florida Water Management District could explain that. He knows the Lake is still low, but there should be a way to pump some of that water backwards. It is amazing how much water they are dumping.

Mr. Perona said he definitely wants to keep an eye on the debt service coverage. We have been watching it coming down and now that it is under 2% he thinks we have to be very conscious of it. We have to maintain a certain level at 1.25%. Mrs. Hurtubise said the calculation of the debt service coverage is a function of the 12 month rolling average of operating income. When the September 2006 month drops off, the huge operating deficit in the month of September is going to drop off and it will rebound back up again to some degree.

Mr. Perona said he knows we have a good excuse for it with the decommissioning of the King Plant and the accelerated amortization we had to do for that, but it becomes part of our calculation to the bond people who take a look at us. Mrs. Hurtubise said oftentimes it only gets displayed once a year on September 30<sup>th</sup>. She doesn't believe we show the interim financial statements. They are unaudited, and she doesn't believe they are reported to the agencies. Mr. Perona said he knows how important it is, and it stimulates a lot of questions.

When you start seeing these little indicators that start coming up, it sets off the bells and whistles and is something we want to avoid, especially if it is artificial.

Mayor Benton said it also should be said that we could have raised rates and these numbers would look a lot better, but one of the things we are trying to do is keep rates down. Just like in the private sector, our insurance rates have gone up on buildings and on facilities, so we're dealing with the same problems and costs that the private sector is, but we haven't raised the rates like we could have, because we are concerned about the public. We are caught in a predicament here. The private utility companies don't really look at it. They answer to their stockholders, and we are trying to go a little easy on our stockholders. This could look a lot brighter if we raised our rates, and he is sure the public understands that.

Mr. Perona asked if we are communicating with the City on what our estimated transfer is going to be at all times, so they can plan accordingly. It used to be a given that this is the number, and next year it is going to be a little bit larger. Mrs. Hurtubise said she relayed that information to George Bergalis last week. Mr. Perona asked that the City be kept updated as things change.

This report is for information only.

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Mr. Tom Richards presented a request to waive the formal bidding process and authorize an expenditure to Electric Supply of Tampa for preliminary design associated with Phase I of the remanufacturing of the Hartman autotransformer HT-1.

Mr. Richards made a power point presentation entitled, "Hedging Our Position". We are trying to hedge our bets a little bit regarding the necessity for us to have firm power supply capacity next spring. Hartman Substation is one of our two transmission substations that brings power from the transmission grid to Fort Pierce. It comes into the substation at 138,000 volts and leaves at 69,000 volts at transformation. All of our loads are served from that 69kv system that loops around town. Hartman is our interchange substation located on Hartman Road just north of Okeechobee Road on the east side. He displayed a picture of the Hartman HT-1 transformer. It is an Allis Chalmers transformer built 33 years ago. It has aluminum windings, which wouldn't be our standard today. We would like to have copper. Interestingly enough, GE has purchased all the rights to Allis Chalmers, who is no longer in business. When you fill this unit with insulating oil, it weighs about 100 tons. He explained to the Board how the unit would have to be disassembled to ship it. Our goal is to always have reliability for power delivery for Fort Pierce. Our planning criterion for this planning process is something called N -1, which means we are capable of operating in a reliable way even with any single component out of service. N is the number of components you have in your system, and we can subtract any one component at any time. It is also known as a single contingency outage. That used to be a voluntary planning criterion on our part. Now it is required by NERC. We now have someone watching over our shoulders to make sure we actually do that. Right now we have several power sources. One is Garden City transformer GT-3, located at the Garden City substation. It is a 167 million volt-ampere. It is connected to a 138kv transmission line that runs north on US 1. At the County line it splits and goes to Vero Beach and FPL. The second and third delivery points for our power consist of two transformers at Hartman. Each one is 50 MVA in size. There are also two 138kv supply lines at that substation, and we have it arranged so that any two lines can feed either one or both

of the transformers. The fourth source is the King Power Generation Plant. It is directly connected to our 69kv system. It can generate about 110 MVA if we need to.

We have to build to serve the largest load we might anticipate at any hour of any year in the reasonable future. The summer record is 125 MW and was set two years ago. The five year forecast for the summer is 145 MW. The winter record was set in January 2004 at 132 MW. Our five year forecast says it will be about 150 MW. Summer loads are more difficult because the equipment is less apt to carrying load when it is hot.

As we stand today, we have our connections for Garden City at 150 MVA. We have two transformers at Hartman at 50 MVA, and we can deliver 110 MVA from the power plant. If we had them all up we would have 377 MVA. N -1 says you subtract the largest component out of your system. We would still have the capacity to serve 210 MVA. What happens when the King Plant goes away May 1<sup>st</sup>? We do the same calculation, but now we have the total capacity of 267 and when we subtract the largest component, we only have 100 MVA capacity left. We need to be able to serve up to 150 MVA, so we are short. We knew that was coming, and a year ago we said we need to change the transformers out at Hartman to larger units. Back in October we had recommended to the Board, and you authorized us to purchase two 100 MVA transformers to be delivered and installed at Hartman to replace the two that are there. If we do the calculation, again, we have 267 MVA total capacity and take out the largest unit, which is 167 MVA, we have 200 MVA left, so it sounds like planning is working.

Nexgen is the company we authorized to deliver the transformers. They promised November, 2007, delivery, and now we are finding in the last few weeks that they are waffling significantly on that promise. After negotiations back and forth they had promised to deliver the first of these units on the pad and energized February 15<sup>th</sup> and the second one on April 18<sup>th</sup>. When we recommended this vendor to the Board, they had an excellent record. Since that time, their records of delivery have gotten spotty. They have had some late deliveries. They even had one case where they delivered two transformers that were defective and had to be sent back to Korea where they are manufactured. Because they are coming from Korea, they can promise all they want, but there are uncontrollable risks in the delivery. Half of that is the shipment is coming from Korea. Things can sit in the port a long time waiting for Homeland Security to okay them. They can take a long time in transit from State to State. Large loads have to have special permits to go down the highway. These are scheduled to come into the Port of New Orleans. If they don't deliver on time, we are kind of in a pickle.

Mr. Perona asked if there was any type of performance bond or guarantee on that. Mr. Richards said we didn't ask for one at the time. We have asked for once since to see if they would give us one. They have said they will give us a performance bond based on these new delivery dates. We would have to pay for the bond, because it wasn't in the bid. If we had asked for a bond it would have been included in the price of the bid. He guesses it punishes them if they are late, but it doesn't help us if we need the transformers. He doesn't know if it is worth paying the price for the bond. We will look into that option. It could be as much as 10% of the contract costs. The contract was over \$2 million. Cancellation isn't realistic at this late date. We started on this early, because we knew it took a long time to get them delivered. What happens if we try to find a used transformer somewhere? We did locate one that seemed to be sort of suitable in Texas, but it is an old unit. It is 40 years old. We would have to get it here, and there are some transportation risks that you take when you take a

transformer that gets bumped or banged too hard. You can damage it in transit. Furthermore, the broker that owns this transformer wanted an arm and a leg for it. It was \$550,000 to buy it and \$40,000 per month to rent it. It would cost us \$25,000 a month for the right of first refusal in case they found a buyer for it. We told them we would give them \$500 flat for an option, but he doesn't think they took us up on that. We looked at the possibility of getting another transformer from a different source and canceling one of the units we have on order. We got as far as talking with GE. GE did have a slot open on their manufacturing, but it was for a design that was already under construction and technically wouldn't work here in parallel with the other transformer. Another option we could fall back on that we are continuing to look at is not retiring all the generation at the King Plant. We are not ready to rule that out yet.

Our recommendation for the Board to consider tonight is to take one of the transformers out of Hartman in January, the one with aluminum windings, and send it to a shop in Bradenton owned by General Electric and have them rebuild it to essentially a new transformer when it is finished. It will have copper windings and some other improvements that will increase the capacity from 50 to 80 MVA. They can have it back here by May 1<sup>st</sup>. If we need it, we can install it then. We are looking for authorization to start Phase I, which is about \$55,000 worth of design work on that transformer. We will have a decision coming up in October. That will be authorizing the shop to order the materials and start re-winding the coils and have them ready in January. We will be back in October with a go or no go decision. In the meantime we will be looking at some of these other options. We will continue to look at Nexgen to see if it looks like they will be able to deliver on time. We will look at extending the power plant life a little bit. We think this is a good insurance policy. The design work can always be put on the shelf and saved for later. This transformer will have value when we take it out of service. Somebody will want it as a rebuilt unit. We could sell the unit to GE Bradenton and let them rebuild it or we could rebuild it ourselves and sell it. Mr. Perona said we would sell it with the engineering plans, so that would enhance the value of it. Mr. Richards said yes. Mr. Perona said the engineering doesn't go bad. Mr. Richards said that is right. We would have \$55,000 invested in the engineering and design that would be useful any time down the road for us to use or someone else to use and rebuild this transformer. Mrs. Cully asked if there is assurance from this company in Bradenton that they will definitely have that by May 1<sup>st</sup>. Mr. Richards said we have dealt with them over a number of years, and they have been very reliable. This is an estimate or budgetary price for us to go ahead at this point. We are pretty confident they will do what they say.

Mr. Perona asked if our communication with Nexgen is good. Mr. Richards said yes. We are in contact with them on a daily basis. Mr. Perona asked if the information from them is something we can rely on. Mr. Richards said he thinks so, but he is not sure. Mrs. Cully asked if Nexgen is the only ones we could have ordered these from. Mr. Richards said we had several bids and the award was based on the lowest evaluated bid. The first units they delivered to the North American continent had a good reputation, so we decided to take them based on the low bid.

Mr. Summerhays said he thinks we need to go through the scenario of what happens if we decommission the King Plant, don't get the new transformers and then one of those Hartman Road transformers fails. Mr. Richards said it is not the Hartman transformer failure that is the big risk. It is the Garden City transformer, which is the much larger one. It also relates back to the tie line with Vero Beach. If either one of those fails, that source is out of service. Then

we are left with looking at our daily loads, and, depending on the season, they may or may not be over 100 megawatts. It is not a good situation to be scrambling really hard to try to make a repair to whatever broke or make a replacement, but, ultimately, the probability is very small, but the consequences are very high that we could have rotating blackouts in Fort pierce until it gets fixed.

Mayor Benton asked how many other bids we received. Mr. Richards said he doesn't recall, but there were several. Mayor Benton asked if those other companies were within the United States. Mr. Richards said some were; some were not. Mayor Benton asked if we've contacted them just to see how quickly they could deliver if we rebid this. Mr. Richards said through our Consulting Engineer, R. W. Beck, we have contacted every manufacturer of major transformers like this just see if they could build us a transformer on short notice, and the only response was the one he mentioned where General Electric had an opening in their assembly line for a project they had already started.

Mr. Perona said it seems to him this is a good back up plan, because no matter how small the probability is, the risk is very detrimental to our ratepayers. It is something we need to do to hedge our bet. It is money we will spend to ensure that reliability is still there, and we are not going to waste the asset.

Mr. Richards said we had put \$11 million in the budget for FY 2008 for Hartman Substation. That is divided into three pieces. The transformers we've been talking about changing out come to about \$6 million. A third line from FPL, which we talked about three months ago, comes to about \$3 million, and, also, we were looking into breakers on the low side of the substation for about \$2 million. The third line and 69 kv breakers are going to be postponed for a few years until we absolutely have to do it. We are creeping up on load and capacity issues with them, but we can wait until we get there, so we can postpone that for at least two years. The third line from FPL, he doesn't think is so critical that we need to do it next summer. We can do it next fall and have it ready for winter a year from now. That will postpone that \$3 million into the following fiscal year's budget. We are taking the \$11 million budget item and knocking it down to about \$6 million this year. If we to ahead and actually finish through with GE Bradenton, it is going to be just under \$1 million, probably. If we actually go through and have it rebuilt, we will have a spare transformer we can use on our system if we need to. We have three transformers, but we don't have any spares. We are designed to run on any two of them, but, as you recognize after this discussion, these transformer failures take a long time to remedy, sometimes. If we have to buy a new one or rebuild one that has been wrecked, it can take 6 to 12 months. It leaves us exposed to a second outage for a long time.

Mrs. Cully said she assumes if we get these from Nexgen, they would guarantee them to work. There is not going to be any problem. We are not going to get them over here and then they don't work. Mr. Richards said they come with a manufacturer's warranty. They are fully responsible for at least a year, maybe, five years after installation. They would make good and make them right, but without their service for a while, it would really put us in a bind, operationally.

Mr. Summerhays said he understands there is a possibility we could sell an interest in this spare and help reduce our costs. Mr. Richards said we have broadcast a request to some of our sister utilities to ask if they would be interested in participating in the ownership of a spare

unit like we are proposing here. So far, we have had no response. It would be limited to those utilities that use those voltages. We are not exactly sure how many there are yet. We should have that information available by October for further discussion or elimination. That would be a great asset if one or more utilities would help us own this transformer, and we could share the use of it.

Motion by Mrs. Cully, seconded by Mr. Summerhays and unanimously carried to waive formal bidding process and authorize an expenditure to Electric Supply of Tampa, Inc., in the amount of \$55,000, for a preliminary design associated with Phase I of the remanufacturing of the Hartman autotransformer HT-1.

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Mr. Thiess said we are still working on getting a meeting with City staff on the King Plant demolition. The City has been tied up with a lot of issues over the last two weeks, but we are looking at moving on that in the next week or two. Mr. Perona said if the King Plant is needed for generation at this point in time, that may be a part of that Memorandum of Understanding, because that might change the timing a little bit.

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Mr. Thiess advised the Board that staff brought the UA budget to the City Commission last night. We didn't have any specific line item type questions, but they did defer action on it. When we take the budget to the City Commission they have two alternatives. They can approve the budget or if they defer action, they then have 30 days to bring it back on line items with a 4/5 super majority. He doesn't think that will happen, because we have been through this in a workshop and there were no specific questions raised. We anticipate going through the 30 day period and having the budget approved by default.

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Mr. Thiess wants to make sure everybody is aware that we have closed on a couple of properties that have been in the mill for some time now. We closed on the 37<sup>th</sup> Street parcel. That is the 16.25 acres directly across the street from the Energy Services Center. That is the site of the future administration complex. We don't know when that will happen. It depends on the growth of the utility. It depends on the value of the properties downtown in the vicinity of the courthouse. At some point in time we see vacating the downtown properties and selling them at a very good price and putting that into the 37<sup>th</sup> Street complex at some future date. That closing was in late July, he believes.

We also closed on the Selvitz and Prosperity Road electric substation property. That is about 4.35 acres for the future electric substation that will serve both the Water Reclamation Facility and anchor our southwest service territory. That closed in early August.

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Mr. Summerhays asked if we have a report on Frank Varella. Mr. Thiess said Mr. Varella will be out at least four to six months. Right now, he is going through a process of identifying exactly what his problems are and seeing experts. We don't know where that is headed. We would really like to have him back here in a six month period. Mr. Thiess thinks he can go about six months with sick leave, vacation and, sick leave bank. We are optimistic he will have his problem diagnosed and have it corrected and get back to work. We will keep the

Board updated when we receive more specific information. Mr. Perona said we wish him well.

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Mr. Summerhays congratulated Chairman Perona upon his engagement to Kathy Kiper. The other Board Members reiterated this, and Mr. Perona thanked everyone.

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Mr. Perona said he doesn't want the Memorandum of Understanding to get out of his radar. At the last meeting we decided to postpone discussions until this meeting, and he understands we are working with City staff. He would like to see something at our next meeting. He doesn't want time to get away from us. He understands that things happen and we have to get together to agree or agree to disagree if we have to. He would like something back to the Board to see if there is something we can do to get an agreement going. The dates are coming up and will be here before we know it, and he wants to have a plan. Mr. Perona told Mr. Recor he realizes he was not at our last Board Meeting, but knows he realizes what is going on. The MOU is very important to this Board, as it is to the City, and we need to get that done, so we all know what to expect.

Mr. Thiess said the Utilities Authority staff is ready to go. He thinks once the City gets their schedule cleared out a little bit, we should be able to get together, hopefully, by next week. Mayor Benton said the City has a budget meeting next Thursday morning. After that they will have plenty of time on their hands, but they have had a budget to deal with. It has taken a lot of staff time.

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There being no further business, the meeting was adjourned.

ATTEST:

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Secretary

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Chairman