

MINUTES OF A REGULAR MEETING OF THE FORT PIERCE UTILITIES AUTHORITY,  
TUESDAY, JUNE 17, 2008, 4:00 P.M., CITY COMMISSION CHAMBERS.

Members Present: Chairman, Darrell Drummond; Secretary, Robert W. Summerhays, Jr.;  
Deputy Secretary, Thomas K. Perona; Mayor Robert J. Benton, III.

Excused: Vice Chairman, Pamela K. Cully

Others Present: Director of Utilities; FPUA Attorney; Director of Electric/Gas Systems;  
Director of Water/Wastewater Systems; Director of Shared Services; Internal Auditor;  
Purchasing Manager; Director of Finance.

Chairman Drummond 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.

Chairman Drummond asked that the first item on the Consent Agenda be removed for  
separate voting, as he was not in attendance at the meeting of June 3<sup>rd</sup>.

Motion by Mr. Perona, seconded by Mr. Summerhays and unanimously carried that the items  
listed on the Consent Agenda be approved with the exception of Item 1.

2. Excuse Vice Chairman, Pam Cully, from today's meeting, as she is out of town.
3. Bid 5575: Approve an additional \$40,247.74 to rework existing facilities for new underground service at Westside Baptist Church under existing unit price contract with Mastec of North America, Inc.
4. Approve ranking and authorize negotiations to begin for a contract with top ranked firm, Heveron Group, Inc./Beachland Cleaning for janitorial services and if an agreement cannot be reached, to proceed to negotiate with the next highest ranked firm.
5. Approve post budget request in the amount of \$40,000 to repower two surficial wells using electric unit price contractor, Mastec, Inc.

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Motion by Mr. Perona, seconded by Mr. Summerhays that the Minutes of the Regular  
Meeting of June 3, 2008, be approve. Voting yes were Mr. Perona, Mr. Summerhays and  
Mayor Benton. Mr. Drummond voted "present." Motion carried.

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Mr. Roger Fontes, General Manager and CEO of Florida Municipal Power Agency was present to address the Board. Mr. Thiess explained Mr. Fontes is here to discuss some things concerning public power. He is in his eighth year as General Manager of FMPA and has about thirty-seven years in this business. In particular staff has posed a couple of questions for Mr. Fontes. One concerns the five-year opt out that Vero Beach chose, and why FPUA may be better off staying with FMPA as an All Requirements member. The other

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question concerns the future of FMPA and the competitiveness in the power industry in general, as we stack up to the investor owned utilities.

Mr. Fontes said he has been appearing before several member city counsels and boards. As you can imagine electricity and energy policy is in the news. What public power, FMPA and FPUA have done in the past is a reflection of historical trends - municipal utilities wanting to control their own destiny, to make decisions for their community that will last over time. FMPA provides an opportunity to do that jointly, with others. FPUA is one of fifteen utilities that formed a project to provide for all of your needs. He is proud to say that over the years, not withstanding some of our current rates, the Agency has never had a problem delivering power to its cities, even during the worst hurricanes. There were some outages in some of our cities, but all of those were on the distribution side. All of our power plants were ready, able and willing to take load, serve load and did in all areas of the state during all the hurricanes. Going back to 1983 with the big freeze when some private utilities had black outs and rolling brown outs, the Agency and the cities had sufficient resources to cover their load requirements.

FMPA has a contract with your community to always have adequate supply. You have given us your commitment to pay your bills and with that commitment we collateralize that, go into the market, purchase power, build power plants, sign contracts to buy fuel, take on the obligation of transmission planning and things of that nature. The last five years or so, we've taken on additional obligations - the National Electric Reliability Council has been established. It is a mandatory requirement for all utilities. We are still learning what that means within FMPA. Your city is involved in the distribution side. It is a critically important element of the national infrastructure and fines are possible. FMPA has hired a couple of people to work on that area, experienced people. Every Monday there is a conference call to make sure our systems are as reliable as possible. Ultimately, the control that you have is through the Board of Directors at FMPA. You have a voting member there, and with the fifteen members we bring a lot of knowledge and experience into making decisions that will benefit the communities we serve, including Fort Pierce. Changes and challenges abound. People follow the price of gasoline pretty carefully. He just returned from Hawaii, and they are paying over \$5.15 for a gallon of diesel. Every commodity is connected to the gasoline stream. People don't track natural gas prices much in Florida, because we don't burn a lot or use a lot for home heating. FMPA's budget, which was put together in June, 2007, assumed \$8.50 for natural gas. The spot market today is \$12.90, up 35 cents, today. This is a time we are heading out of the normal high use period of cold spells when the people in the north use natural gas to heat their homes. That is usually when gas prices would spike. Coming into June, prices would normally drop, because the only customers are really natural gas consumption for utilities to make electricity. The floor seems to be building in at \$11 or \$12. We have a very aggressive hedge program at FMPA. It has been recognized, nationally. Last month we had a big hit in our rates for fuel adjustment. Our natural gas effective price was \$9.50, even though the market was a little over \$12. We hedged and are really only \$1 over our budget and \$2.50 under the spot market, but we are still raising rates to our customers, because we are buying that extra \$1 of gas; we're paying for it and burning it and using it to make electricity in times when electricity consumption is high.

Mr. Fontes said there are three main things he would like to cover today. We have talked a little bit about the first one - our fuel mix. Mr. Fontes said when he came to work in 2001, we had some nice contracts to purchase power from coal burning units at Tampa Electric

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Company (TECO) and Gainesville Regional Utility (GRU). Within six months we tried to negotiate and extend those contracts. By then natural gas prices has peaked in Florida at \$12. That was four times the highest price anybody had ever seen. The suppliers would not renew our contracts. They wanted to keep that power for themselves. In part, because of that, he appeared before this Board and talked about building the FMPA coal plant. That was FMPA's idea. We proposed that and got it as far as permitting and the policies of the State changed abruptly, and we had to abandon that project. That was our window of opportunity.

Since that time we have developed some recovery plans he would like to explain. We are pursuing the possibility of participation in a new nuclear facility with Progress Energy in the Levy County nuclear plant on the west side of our system, and we are in discussions with FPL to participate in the Turkey Point expansion. Base load power plants are necessary for us to keep our mix somewhat relevant and approaching those of our competitors. Our mix is actually better than TECO's. It is not nearly good as Orlando Utility Commission's (OUC), because they have almost half of their energy supply in coal-fired power at the Stanton Energy Center. We own a third of those units, but, again, it is a smaller part of our overall system.

You are familiar with fuel switching and the fuel monitorization program. With your help and the help of your management, we have completed the Treasure Coast Energy Center (TCEC). The plant is running. It is commercial and seems to be going very well. We are very proud of what we have been able to do out there. The plant is producing above its nameplate capacity. It has been running well since it went commercial on May 30<sup>th</sup>. FPUA's King Plant is being retired. The facility we built to replace the King Plant is 40% more efficient in terms of converting BTU of natural gas to the equivalent of electricity. That results in a 40% price reduction on the price of gas. He can't go buy gas at a 40% reduction, but if he can build power plants at that kind of rate, it will help us over the long haul. People think we should see immediate reductions in our costs. That is not exactly true – some reductions, yes. We only replaced 100 megawatts of the King Plant. The one plant is three times the size of the King Plant. In fall of last year we had two very advantageous contracts for power expire, the terms of which we could not renew. One was with FPL, and one was with the City of Lakeland. Lakeland felt it was a big loser for them, but a very attractive contract for us. FPL's contract was at 35 cents delivered through a court order sixteen years ago. They were ordered by a judge to sell us that block of power to make up for prior perceived over-competitive prices. Ultimately, FMPA's job is to continue to replace these existing units that are very expensive to operate. That includes Lake Worth, Kissimmee and Keys Energy Systems. Over the past two years we've retired several very inefficient units on all those systems. Lake Worth is looking at retiring all of their generation in two years. How do we make that up? We're making it up with combined cycle technology. It burns natural gas. People ask him if he's lost his senses – why are you building more natural gas in an environment where natural gas prices are escalating? The answer is, the new plant will be 40% more efficient than the plant replaced, so that when they do run, they will be cost effective for our consumers and will allow FMPA to enter the market at times to sell power to help its own bottom line in terms of revenue. Our system average heat rate, which is how you measure competitiveness in the market, is too high. We would have to sell power at a loss to meet the market demand. However, there is still the opportunity for doing that, but we must get our mix under control. We must retire our older units. We will need base load nuclear power in our resources mix, and when and if the coal-fired power plants become acceptable again, the Agency will have to look at those as well.

Mr. Fontes referred to pages six through nine of his presentation. What you will see there is a basic walk through of how a company's resource mix can matter to their ratepayers. Our goal is to get more efficient base load, non-fossil fuel base load, like nuclear power, as soon as possible. Unfortunately, the first nuclear plant we have available to us is 2016. Those are the realities he works with and the difficulties we come in contact with every day.

On the other hand, some of those uncertainties he talked about earlier, can also have an affect on our future, even though it looks a little bleak. One thing, for example, is our natural gas plants are very clean compared to others. Somebody who has a high coal mix today, like TECO or OUC, if carbon taxes or a trading system is put in place and carbon reduction is required, they will have to buy more and pay more for their electricity, because those units are carbon intensive. Natural gas plants are cleaner and will not require as much of a trading system and will not require as much as far as carbon taxation. Those people who have coal today have very competitive rates. They run the risk of the government passing a regulation that would jack the prices up higher than ours. We have agreed to diversify across several fuel types in many locations to help hedge our risks on just the generation part of the equation.

Mr. Fontes said he would also like to mention a little bit about energy efficiency and how it is used in our community. One of the things we are finding is that a kilowatt hour of electricity wasted is probably not affordable anymore. We have to be more careful about how we use electricity. Things such as leaving the refrigerator door open or leaving the lights on in a room when you are not there, leaving incandescent bulbs in the outlet, all of that has an affect on how much fuel we have to burn. Wasteful practices have to be rethought. Because of that, the FMPA Board of Directors is launching a million dollar conservation program and seed money to get everybody started on being more energy efficient. We also have several programs available to our community, both through the utility level and through customers, for energy audits and other things that will help individual consumers, whether they are businesses or homes, reduce their consumption in areas that are cost effective.

Mr. Fontes said the competitive picture is an important one, and he has touched on some of these items. The industry has gone through several periods of high uncertainty. It seems like from 1908 to 1958, we had a certain way of producing electricity. After that, to the turn of the century, we had new technology. In 1973, we had the Arab oil embargo. Oil prices went so high people had to ration gasoline. He worked at the Department of Water and Power at the time in Los Angeles, which was 90% oil and gas. Both of those utilities had to bite the bullet and almost replaced their generation systems by building coal and nuclear outside of the LA basin, and Jacksonville Electric Authority switched just about all their machines to petroleum coke in the Jacksonville area. Their rates went up for a bit while they absorbed those costs, but, ultimately, that was a very wise decision, as the price of coal has been very stable until recently. Now, even the price of coal has gotten to \$20 per ton from \$2.00 per ton. The price of shipping coal is equal to the price of buying the coal per ton, because of the railroads and captive shipping issues. There has been federal legislation introduced to put more backbone in the Service Transportation Board and remove anti-trust exemptions from the railroads for just that reason, perceived price gouging and things of that nature. There is lots of uncertainty. We've dealt with it before. We've had these kinds of problems before. The industry, its political leadership, its policy boards, its consumers have weathered these times and found ways to work it out. We will learn from experiences.

When you consider the strategic advantage of the cities' involvement with FMPA, it is a bit of an intangible. It is hard to put a dollar price on that. There are a lot of services FMPA has provided. When you look at comparisons and what you read in newspapers, he would ask you to be a little cautious about how you interpret that information. Unfortunately, in Fort Pierce, for example, your customers get a bundled bill. FPL customers don't. When you compare utility bills, that is a big consideration. Our systems have the opportunity to collect and transfer money to the general fund to support their local communities in many ways. Ultimately, each of the members that are part of FMPA have concluded that the brand of service, the ability to control their own destiny, the cost-based price structure containing no profit added to any kilowatt hours FMPA sells to any of its customers, and the ability to plan their own future by making decisions and being part of that, has been more compelling than a special deal or short term deal.

We have had three or four of our cities, - Bartow for example, had a very attractive contract with one of our suppliers, Progress Energy, which expired and their re-negotiated rate went up about 40% for another five year period. His perception is the state is going to become a little short on energy capacity with cancellation of three large coal-fired power plants in the last year and delaying getting nuclear on line. We are going to see a little pinch in supply. People who will be renewing their contracts in 2011, 2012, 2013 are likely to see large rate increases from wholesale suppliers. It is not just in the energy rate. Both of the state's private utilities have received approval from the Public Service Commission to start rate-basing development costs for the two nuclear plants. Progress Energy's customers and FPL's customers can expect to see this year an increase in the demand rate to cover \$600 million, respectively, in nuclear development costs. It is not a good picture to anybody. He does think you will see, over time, a continuation of the FMPA rate. Our forecast shows moderate growth of 3.5 to 4 percent in the rates. That assumes gas prices at fairly stable amounts increasing with the cost of living or escalating as the federal government forecasts it. Lately, the Energy Information Administration has been underestimating it. That has created problems for everybody, not only the Agency, but others who deal in the natural gas market.

Mr. Fontes further stated it is getting harder and harder to find hydrocarbon, whether it is oil or gas, and often they are found together. It is a domestic resource. Almost all the gas we use is produced in Louisiana or Texas. We have service on both of the high pressure pipelines. We have ways of dealing with cost spikes and cost increases, but with prices at historical highs and having the volatility we've seen, FMPA has to pass those costs through. He thinks the ultimate success is continuing to control the decision-making process, do what we know is right in the long term, and work as a group. It is not just his staff or your staff. It is a significant body of expertise and capabilities that are advising us and working with us. We are sensitive about it and work every day to try to control costs as best we can.

Mr. Fontes stated that FMPA has been meeting with Vero Beach. Vero has given five years notice to withdraw. On December 31, 2009, their system will take over their responsibilities for scheduling power. FMPA will supply some power to them through the project, because of the way their contract works. He has seen the analysis their consultants have done. We don't have to quibble with that. He will just tell you that the differences we would presume in trying to help Vero Beach operate its system would be, again, Vero is going to have to buy its own fuel. They have to make arrangements for fuel transportation and transmission arrangements. A lot of the detail and working capital to participate in the gas wholesale

markets, what it costs to put up collateral for purchasing fuel hedges, etc. have not really been looked at by the utility or its consultant. They've looked at the big ticket numbers, such as this many megawatts at this cost, times this consumption, equals this. It is a fairly simple and simplistic analysis. It doesn't have a lot of robustness in it. He knows one of FPUA's boilers last year had a serious problem, and we worked with your utility to not have to put money in it. If Vero Beach has something like that, some sort of catastrophic problem in one of their plants, their economics are out the window. If it is real catastrophic, it may take them years to recover. He spoke to the City Council of Vero Beach many times, both publicly and privately, and what he suggested to them is to be careful about the analysis that assumed a certain outcome and to look at options that balance risk and reward. If you face an \$8.5 million repair before you can run the generator, and you don't have that amount or are buying make-up power while you are repairing it, the cost can escalate dramatically. He will underscore that statement with a conversation he had recently in Lake Worth with the City Manager, Assistant City Manager, Acting Utility Director and Attorney about the same thing he is talking about tonight. A year and a half ago Lake Worth wrote a letter to FMPA saying they wanted to withdraw. Recently, they had a boiler tube blow out in one of their main units costing \$780,000 to repair. They didn't have that, so they had to borrow from the General Fund to put the plant back in running order. The Assistant City Manager asked if this is sustainable. They ran the numbers and found it isn't. So, for Lake Worth, their recommendation to their council is that they get out of the generation business in the next couple of years. It is just too expensive. The risk-reward just doesn't exist for units of that age.

Mr. Drummond said we appreciate Mr. Fontes coming today. Mr. Drummond stated that he realizes that when staff scheduled this meeting, Mr. Fontes had no idea this would be such a volatile time with regard to the cost of fuel. Of the fifteen All Requirement members, have you heard anything with regard to how they are looking at handling that spike that occurred last month? You stated in your presentation that you have a very aggressive hedge program, but that hasn't satisfied this short term problem. Mr. Fontes said he has not really heard yet from the members. People paid their bills. There was a big jump. Because of the time of year, this is kind of anticipated. What happens is a combination of events in the April, May, June time period. Every year it happens this way. The more efficient units have to be taken out for maintenance, getting ready for the summer season, so they will operate over the peak and be reliable. Those are coal units. The high efficiency gas units between January to March are out for maintenance. That means that in general, all the older plants must run to keep the lights on. Those units are much less efficient. Automatically, there is a 40% increase per megawatt hour. If the gas price is up \$10 to \$20, that is an additional 20% increase for just those months. You are paying for the less efficient units and putting in more gas at a higher price. We had this problem last year. It is a feature of our rate methodology that was debated and discussed and created and approved by FMPA Board for two main reasons: One, our rate always tracks our expenses without fail. We never under recover. We are taking three months forward and always adding part of that into the rate as we move forward. That was important to people, because there were times we were expecting money, because we had undershot, and then you have to make up, and if you are making up at a high priced time, it snowballs. Our good ratemaking philosophy is that we are truth in rate making. If gas prices go down in the fall, you will see an immediate fall in our rates. The second thing is working capital. The Agency's members have in general wanted only a minimum amount of working capital held by the Agency. Monies that are over-recovered are refunded back to the cities. Several cities have maintained their own rate stabilization accounts. Not all of them, but

some. FMPA doesn't have a rate stabilization account. The Agency never has. We have 60 days working capital. That is it. That has not been enough to cover the price of natural gas when it zooms up 30 and 40 percent. We have a \$100 million line of credit with Wachovia if we need it to go in and pay our bills, especially, in months like July, August and September when we're buying three times as much natural gas as we would in January. He had a similar discussion with Peter Batty on the Board in Key West and at the end of the discussion, he said it seemed to him Key West would have to establish a rate stabilization account to help absorb some of these fuel cost adjustments. Mr. Fontes said we are required to true it up. Our hedge accounts are worth \$80 million. We could cash them out and apply that to the rate and keep steady or reduce the rates. The difficulties our board is having with doing that is it leaves you completely exposed to a \$14 rate in 2009 or an \$18 rate the following year. Right now we have hedges in place for the next five years. The point is, it is your money. If you tell us you want sell off the hedges and take half of it and buy down the rate, it is your money. We will do that.

Mr. Drummond said he is a little confused. You are suggesting your hedge program is pretty much based on the FMPA Board's analysis, working over a three month period that you are able to somewhat sustain the rates over a three month period. Mr. Fontes said the three month period has to do with our working capital. The hedge program has to do with our buying fuel futures at lower prices than we would have to pay on the spot market. The way the two work together is, in the month we are in, to buy the gas for the next month, which is now part of the next three months. When we unwind those hedges we get cash out, which we put toward the rates, which does buy the rates down. In this case it is \$9.50 versus \$12.50, about a \$2.00 buy down for the percent we hedge. It could be 70 to 80 percent of our needs that could be hedged. That doesn't take care of the next month or the third month, because we can't unwind the hedges until we get to the time when that is done in the market place. We can only take care of one month at a time in terms of buy down, but the board could say to us to unwind half your position, take the money and buy down the rate in July, August and September. It is a bit like eating your seed corn. It is tempting; it's doable; it's completely within your authority and control, but it is a risk-reward question. So far, the board has said pay as you go; keep the books straight; hedge out; take the hedge in the month you need it, as we've done traditionally; maintain your future hedges for the future months; and be as careful as you can in using and buying fuel and maintaining reliable service.

Mr. Drummond said later on in the agenda we are looking at our PCA, again, and he thought we had kind of gotten ahead of it last time when we did the large increase, so he is totally lost. Mr. Fontes said your PCA is kind of covering fuel costs, but I have a different way of handling it. Ultimately, Bill has the responsibility of trying to come up with the cash, because he is buying the fuel. As I said at one meeting where people were asking questions, the most effective way of reducing our fuel bill would be to have one city raise its hand and say we'll go without electricity for the next month.

Mayor Benton said we have reserves at home in the US. What he doesn't understand is why there is not more pressure from utilities like FMPA and others throughout this country on the federal government to allow us to tap into what he hears are reserves off the coast in this country of natural gas. Also, when it comes to nuclear, you're telling me it's going to be 2016 before we can get any. He has a hard time fathoming why, because we have two plants down here. FPL was supposed to build four to start with. He can understand if you're looking to find a new area and build a plant, but if you were going to build two where we already have

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two, why does it take so long to permit? Congress and the Senate see the crises we're in. How long are they going to allow this to continue?

Mr. Fontes said nuclear power is federally regulated by a separate entity, the Nuclear Regulatory Commission. The technology was developed under the Eisenhower administration, the Atoms for Peace Program. We own a piece of St. Lucie No. 2, as you know. We support their plant and pay for it. There were times, as recently as 2004, when the price of power out of St. Lucie was higher than the Project rate. That's not the case anymore. In those days several cities wanted to sell off their St. Lucie interest, because the little snapshot they took said it is higher. He made several presentations to several cities who owned pieces of St. Lucie, and he told them he would do his best to sell their interest if they are serious. In a wholesale market like this if your project is out of the money, nobody wants to buy it and if it is in the money, no one wants to sell it. Today, St. Lucie No. 2 is a good reactor. It is good technology. However, we just put \$85 million in the upgrade of the reactor vessel and the steam supply system. Amortized over a lot of megawatt hours over a lot of years, it is still cost effective, but that is \$85 million cash. Mayor Benton said that extends the life, too.

Mr. Fontes said the federal nuclear policy has changed. He has to play with the rules that are in place now. That doesn't mean he can't help influence, and we do. The nuclear technology has been on the shelf for some time. Because of high hydrocarbon prices, there has been an interest in renewing it. Congress has acted three or four times to facilitate nuclear development, including streamlining the licensing process and combining the permit to build with the operating license. There are several applications pending before the Nuclear Regulatory Commission. They have to have design pre-certified. In theory it is supposed to be quicker to get it done. The proposal he has seen from Progress Energy – he has signed a confidentiality agreement, so he has to be careful about how far he goes into things – they expect to be one of the first six nuclear units in the country. They have already spent \$85 million just to hold certain pieces of equipment that are made in only one foreign country. They are key to the operation of the nuclear facility. There are materials and supply issues we're subject to. If you are planning a vacation in Europe, you know the dollar is worth about 50 cents. When we buy a valve from Spain, we have to pay 50 to 100 percent more. The difficulties in the nuclear industry will be procurement, equipment manufacturer, delivery and trained, licensed construction workers. Mayor Benton said if they opened it up and you were building several plants like we did in the 70's, you'd have more companies building these. He read there are people in the Carolinas looking to permit four or five plants. Florida hasn't moved anywhere. Mr. Fontes said Progress Energy has been very aggressive. The first six units under the Energy Act of 2006, can apply for and get, if Congress funds it, 1.5 cent per kilowatt hour as a federal subsidy for pushing the nuclear envelope. Progress is hoping, and, as their partners, we are hoping, that we can meet that time level. We are very active with them. We have been negotiating actively since November. We hope to get an agreement with them by August to go forward as joint partners with OUC, JEA, and GRU. Vero Beach was part of that group but dropped out recently. They said it was a little too expensive for them to participate. They are distracted right now getting ready to serve their own load. Nuclear technology is in our country's future. He agrees that once the market place sees it actually is going to happen, American entrepreneurs will begin to construct things to make equipment and parts, and training will go on. The Nuclear Information Administration and NEIA, the trade association, are already setting up schools for nuclear welders and construction craft trades that we will need to build the next generation of nuclear plants. Most people feel that being

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first will help. That is one of the reasons we're interested in participating with Progress and with FPL. We have had a good success story with FPL on the St. Lucie reactor.

Mayor Benton said he understands with reserves of natural gas inside this country he has read that we don't have to go outside the country to get it. Are we building more refineries? After the hurricanes we understood why the price went up. A lot of the refineries were taken off line, but by now they should be on line. What is going to happen if we have a hurricane in the gulf? Are we moving forward to tap into those reserves? Mr. Fontes said he would like to give them some facts as he knows them, and we can discuss it. There are more drill rigs in operation in the United States today than there ever have been. British Petroleum reported to the Federal Energy Information Administration last month in a fairly well done report that most people are giving a lot of credibility to, that production was lower last year than the year before. In 2006 it was lower than in 2005. This is with the maximum amount of drills ever running. What he thinks we're finding is the law of diminishing returns is catching up with our country. The places we have to go are more remote. The distances we have to drill are greater. The recovery amounts are smaller. The depletion times are quicker. All of these matters argue to higher price structures. Two or three years ago there was a boom of the idea that we would have thirty new LNG facilities in the country in the next ten years. The Federal Energy Commission, who has authority to site these things, predicted thirty to forty new plants and ten to fifteen percent of the country's natural gas would be imported LNG. Well, note the word imported, and you have to build a terminal. People are resistant to LNG facilities. Many are afraid of them and don't understand them. They consider them volatile and flammable and things of that nature. That has been a problem.

FMPA has invested money in a salt dome storage facility in Alabama, which allows us to take gas off the natural gas pipeline, high pressure pipeline. There are times when \$12 gas at noon is \$7 at night. We are going to start banking gas like that, buying it off the pipeline, banking it and bringing it in on peak. We also have connected to the two pipelines at the Cane Island Energy Center, so we can take advantage of pricing in Mobile Bay, which sometimes is more attractive. We can save monies here and there, but it doesn't add up to the numbers we have to get to in order to make a real material affect on our rates. We are conserving our capital, but, ultimately, we're investing in things that over the long haul will make us more efficient in the purchase and use of gas and, hopefully, bide our time until the efficiency in the new unit and conservation in our cities gets to the point where nuclear generation is available to us, and we can become cost effective again.

Mr. Summerhays said it is his understanding FMPA is pursuing a pilot research project in photovoltaic. Are they proceeding full speed ahead on that? Mr. Fontes said yes. He is kind of proud of that, but the solar photovoltaic will be slightly more expensive than the alternative option, even on a life cycle cost basis, even on a 15 year basis. It is solar. It has an application on our license plates, the Sunshine State. We will take advantage of that. We need to know more about it before we go full scale. We are looking at a ten megawatt demonstration plant. We have several cities, including yours, that have expressed an interest. He wouldn't be surprised by this time next year if several cities have installations and others will be having them constructed for them. That will give us a chance to see how they work in various locations. Obviously, coastal cities will be a little different than inland cities. Key West will have its unique problems, etc. We are pursuing it. We think it has great potential. We are also aggressively negotiating with a biomass generating outfit in Tampa. It is the most expensive marginal type of facility, but it is dispatchable. Solar, sunshine, you get the power,

you put it on the grid, you use it. When the sun stops shining due to cloud cover, it shuts down and you have to pick up the loads with gas units or something. The marginal cost of the biomass plant is 30% higher than what we would pay for the new plant we're building at Cane Island. The plant we built at Treasure Coast was \$270,000,000, all in, 300 megawatts. The new facility, sister unit, except it doesn't have fuel oil capability, which makes it cheaper, is \$450,000,000.

Mr. Perona commented that the book produced by FMPA is a wonderful book. He read through it, and it gives you a feel of 30 years of history where sometimes it was a good idea; sometimes it was a bad idea. As a Board Member reading through our efforts over 30 years, it gives you a long term vision in that it was very successful. A lot of people took a lot of chances, and it turned out really well. It was comforting to know that. Looking at our Utilities Authority, as Board Members, we have to justify to our ratepayers and city leaders that municipal power will endure and will be the cheapest and the best way. When you mention the fact that municipal power gives control to the community, is it worth the money we have to spend now, only looking at that short little picture you're talking about? That little picture looks to him like it is going to expand a long way versus the diversified fuel and currently the lower priced IOU's. We're taking it on the chin pretty tough. Can you help us with a little justification? Mr. Fontes said everybody who burns natural gas in boilers to make electricity is hurting. FPL just announced they are over their \$600,000,000 fuel budget in the middle of the year, so they are allowed now to raise their rates. They're going up 6% next month. TECO is in the same boat. Typically, their fuel cost adjustment is lagging. Seminole Electric's fuel cost is lagging. We produce and send to your financial people, monthly, a running account of where we are in the comparative mix. We jumped up above FPL with this latest hit, but they are just lagging. Next month and the month after, they will bump back up. We have been about in the middle, slightly above the middle, for about a year and a half. Part of that is that we are non-profit. Our rate structure is cost based. We are passing through costs and not taking any additional dollars out of the till. That helps us, obviously. FPL has more nuclear than we do. When their nuclear plants are up and running at high capacity, they are benefitting. We are benefitting some. They are benefitting a lot. We get ten; they get ninety. That is basically the ratio. Savings also are had at the local level. Your line crews and local cost structure is lower than FPL's. Together we should be able to package and produce a competitive product. The lowest cost is tough. The lowest cost is with Seminole and JEA. That is because they have about 75% of their machines in coal. We cannot duplicate that. Five years from now, Seminole customers may be screaming, because they are paying carbon taxes. Each utility faces that ultimate fuel and fuel mix risk. What we have been doing is to hedge our bet. Don't go 80% coal. We don't want to be 56% gas and right now we are. We are trying to get out from under that number, but we want a diversity. We want some photovoltaic, some biomass, some energy conservation. We are going to have to pick and choose and structure our own power supply program, so that it is as balanced as we can get it. We pick from the same technologies the other folks pick from.

Somebody recently said we should be building two on one units. Right now, we take one turbine, one heat exchanger and put it together and call it combined cycle. It is very efficient. It is 40% more efficient than the King Plant. There is another design where you take two jet engines, one heat recovery, and it is more efficient. He called a representative of General Electric and asked how much more efficient a two on one is. He was told it was about .3% more efficient. He said that is not very much, and when you run out the numbers, it starts to add up. There is a limit to how big a unit we can build. He thinks FPL is building four on one,

so they will be slightly more efficient than the two on one, which is slightly more efficient than our machine. He thinks we make that back up in our fuel hedging program and our overall cost structure, and the fact that we are non-profit. He thinks the machine is the right size for us. We are picking GE technology just like they are. Where FPL is building large plants, we're participating with them. He is, personally, very disappointed that our coal-fired plant, Taylor Energy Center, did not get permitted and started under the prior administration.

Mr. Drummond thanked Mr. Fontes for coming today. You mentioned that you have a million dollar program that you are initiating regarding energy efficiency. Is that something that is going to be available for all the members to participate in? Mr. Fontes said yes. It is up for approval by the FMPA Board, he believes, next Thursday. Mr. Thiess said it is on the June FMPA agenda. We have been participating in two conference calls to date, and there is another one next week.

Mr. Fontes said you are in a partnership with a lot of other cities, and just to illustrate how important that can be and how much similarity there is between your interest and theirs, when we proposed the program, several of the larger cities asked why FMPA is doing that, stating they have already done that. They were a little reluctant to go forward. Through the conference call process and compromise, what everybody agreed to was you are going to get funded out of the million dollars. If you are already doing this, do something else. You are not going to lose opportunity, you are just going to gain additional opportunity. Now we are off and going. We found a way to be equitable, to be fair to one another, and to get something going with great economies of scale. Mr. Thiess said, plus, the utilities that don't have a program in place are benefitting from those that have been doing it for a couple of years and gaining that knowledge. Mr. Fontes said they are learning what not to do – sometimes success is avoiding failure. In this business when you are trying something new with customer accounts and people's consumption attitudes, sometimes it is nice to find out what works and what doesn't and take advantage of other people's mistakes.

Mr. Fontes said he will be happy to come before the Board any time. Mr. Drummond said we may ask you back very shortly.

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Mrs. Nina Hurtubise presented the Financial Operating Results for the Month of April, 2008.

Mrs. Hurtubise stated for the first seven months of Fiscal Year 2008, we are doing fairly well. We have an income before City distribution and capital contribution of \$3.3 million. That is pretty good considering we did pay the City transfer in the month of April. Our capital contributions continue to be huge - \$14.4 million for the seven months. Our water and wastewater units billed continue to decrease, primarily a result of the water restrictions, which have been eased a little bit for the month of April, but that is not going to show up in any kind of statistics until May or after. She suspects there are a lot of new habits people have gained. She is not sure there is going to be a bounce back in that consumption. She thinks people are going to continue to conserve.

Units sold in Electric were up 3%, consumption-wise. There has been a huge drop off in Water units sold since 2006. The decrease since 2007 is 13%. There has been a very consistent decrease in Wastewater. It is down 9% from last year. Although Natural Gas dipped last year, it is actually up 1%.

Mrs. Hurtubise showed the Board the dollars associated with the consumption. Electric is up 14%. Keep in mind that includes both the PCA and the rate, so in the month of April we had both an increase in the PCA and a rate increase in the middle of the month. The results of the rate increases in Water were not as dramatic. They were almost flat, maybe, 1/2 of 1% increase in dollars. It is the same with Natural Gas, less than 1%. Wastewater was up 4%. Overall our operating revenues were up about 10% from the year prior. We continue to remain healthy. Debt service coverage is 2.45, the best it has been in recent months. Our operating income for the 12 months ending April 30<sup>th</sup> is much better than it has been in prior months, again, a result of some of the rate increase and cost cutting measures.

Contributed capital of \$14.4 million does not contribute to the improved debt service coverage. This has been pretty stable over the month of April. The big story for the month of April is the non-cash contributed capital. We closed out a number of projects that contributed assets to our system. To name some of the contributors toward the non-cash contributed capital: Palm Breezes or Morningside, Celebration Pointe, Treasure Coast Energy Center, and the La Quinta Hotel are some of those.

Purchases for resale are up 19% for the month of April from the same month last year. We paid out the City distribution, which was \$743,000 more than the year before. We had a depreciation of almost \$600,000, but it is the last month of power plant depreciation.

We are actually seeing a 34% decrease in property and liability insurance and claims. We haven't had a hurricane in a couple of years, and it is finally starting to show. As a result of falling interest rates, we've had about a \$250,000 decrease in interest expense. Because of the variable rate debt of the pooled loan if the rates go down, we pay less.

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Mrs. Hurtubise explained the request for an increase in Purchased Gas Adjustment (PGA) for the period of 7/1/08 – 7/31/08.

She displayed a graph depicting the cost of wholesale natural gas and the direction it is headed in. It is unfortunate that our Purchased Power is a function of these prices. There is not a lot we can do about it. We must recover those costs from the customer in order to remain whole. What is being proposed for the month of July is an increase of 15 cents, bringing it to 90 cents per CCF. This means the 13 CCF residential customer will increase to \$37.38, excluding taxes. The rate per CCF up to 100 CCF's will increase from \$1.87 to \$2.02. As soon as these prices come down, we will lower it. Regrettably, it seems she will be back next month with another increase.

Mr. Drummond said at one point we were trying to do this adjustment with some formula that allowed us to take into consideration historical and what we were projecting going forward, so we didn't have to hit it every month. Are we not able to do that anymore? Mrs. Hurtubise said the projections are so dismal that if we were to do that, the increase would be that much more. We could do it less often, but the impact on the customer would be much worse.

Motion by Mr. Summerhays, seconded by Mr. Perona that the Purchased Gas Adjustment (PGA) for firm gas service be set at +\$.900/CCF for the period of July 1, 2008 through July 31, 2008. Motion unanimously carried.

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Mrs. Hurtubise presented a request for approval of the Power Cost Adjustment.

Mrs. Hurtubise stated she did not expect the level of increase received in the bill last week from FMPA. She displayed a graph associated with the rate comparisons and how FPUA compares to the other municipal utilities and IOU's in the State of Florida. This graph shows the cost from May of 2006 through April of 2008. The base rate stayed steady until we had a rate increase in January of 2007. It stayed steady until the rate increase in April. The bar on the graph shows where Ft. Pierce's fuel costs have been, historically. Other lines indicate the average of the IOU's. This is a culmination of all those statistics we've been looking at for the past 24 months. The IOU average and the non-All Requirement participants' average, are almost one on top of the other pretty consistently. The All Requirement participants' municipal average is indicated by a yellow line on top. We have stayed, up until now, below the All-Requirement participants' municipal average for the 24 month period. Mr. Perona asked if this graph shows all the taxes for the IOU's. Mrs. Hurtubise said it only shows the 6% franchise fee, so we are playing on a level playing field. We are now obviously headed outside that comfort zone.

Mrs. Hurtubise said she is here to present an increase in the Power Cost Adjustment for the month of July. We would like to have presented this for a longer time period, but it is such an uncertain market right now that she would not like to commit beyond July. There is a proposed increase of \$12.00 per thousand kilowatt hours from \$42.00 to \$54.00 per thousand kilowatt hours. The increase was expected, the magnitude was not.

Mr. Drummond asked if Mrs. Hurtubise is suggesting the yellow line reflects the All Requirements participants. Mrs. Hurtubise said it is an average of all the All Requirement participants' rates in those given months. Mr. Drummond said in April, ours is significantly higher. Mrs. Hurtubise said that is when we went from \$34.00 to \$42.00 per thousand kilowatt hours, plus we had the rate increase. Mr. Drummond said the \$42.00 was to get us ahead of the curve. Mrs. Hurtubise said the \$42.00 was to keep us whole. It really wasn't to get us ahead. Mr. Drummond said he keeps thinking back to the presentation where we said this is a big hit now, but we can look forward to everyone else catching up with us – not that we would have to make adjustments on a monthly basis, but that everyone else was going to catch up to us going from that \$8.00 increase. Now, we are about to tack on another \$12.00. Now it is no longer catch up. They have to either grab a bicycle or a car to even find us. He is trying to get a sense is that to keep us whole or to give us breathing room for a period of time? Mrs. Hurtubise said it is merely to keep us whole. We were hit with an adjustment of over \$900,000 on our May FMPA bill. We were expecting an increase, but not of that magnitude. Mr. Drummond said he is looking for some understanding of why we were so shocked. If he understood the presentation earlier with regard to every year around this time with the switching over and everything, that there would be an increase, and we thought we'd get an increase this month, but why such a large spike? Mrs. Hurtubise said, as Mr. Fontes was describing earlier, there is a triple effect. We have the increase in the prices. We also have the increase in the prices that are expected in the future. There is a sixty day operating cash cushion built in, which it is every month. Not only are the prices going up, currently, it is expected they will continue to go up in the next sixty days, thereafter. We got hit with a triple hit.

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Mayor Benton said a couple of months ago in April we saw it coming. Now this hits us. We found out last week. It is hard for him to digest. When it comes to the industry, and we know everything is going up, somebody should have had an idea, and we should have had a warning, in his opinion. It appears we didn't have a warning, and he has a real tough time with that. Mr. Summerhays said it doesn't make a lot of difference. We wouldn't have raised it on a possibility. Mr. Drummond thought we were saying we don't want our customers to get shocked every month, so we are asking for this large increase to get ahead of this thing. That sticks in his mind.

Mr. Thiess said if you follow the tops of the bars for the UA combined base rate and PCA, we went from July of 2007, where we were down close to the investor owned and the non-ARP municipal average, and we took off and caught the ARP average and went past it. Part of that was the King plant decommissioning. That should have been a small part of that. We were looking at a \$6.00 to \$8.00 swing with the King plant decommissioning. That was our information. Looking at the chart, we passed up the ARP average by such a substantial amount, he has to think we moved much faster with the \$8.00 increase in April and, again, with this one, which we did one day after we got the bill. He thinks you are going to see the other ARP members raise their rates to meet the cost, too. We all have the same wholesale rates. We are a little different on the demand charges, but not radically different. He thinks the graph will look a lot different in the months to come. Some of the ARP members might be over-collected to the point they can spread it out longer. We were over-collected by \$138,000 at the end of April. It looked like the April \$8.00 increase was just right. We were looking good and got the May bill, and it was \$900,000 to the bad. We took about a \$1 million swing on one bill. Looking at this, you could gamble the fuel costs were going to go down and do half the increase, but that is a big gamble. If we have a similar bill next month, we're now \$2 million under-collected. Staff took the position that as hard as this is to swallow, we have to pay as we go, and if we get lucky next month and it goes down, we can give some back and lower the PCA. We will be more than willing to do that if it happens, but he thinks we're going to be in a better position than some of those utilities behind us, because we did jump very quickly. In the next few months, they're going to have to jump every bit as high as we did, and, maybe, have to do it longer to recover their deficit.

Mr. Drummond can appreciate other utilities will have to follow suit, but what he is having trouble with is the concept that you are saying we have to get lucky for next month. We don't have an anticipation? We have not been given some kind of estimate from FMPA and where they think we might be next month, so we can somewhat project where this \$12 is going to put us, or could we be back here next month asking for another \$12? Mr. Thiess said he would hope not. We had those discussions with FMPA staff last Wednesday. We thought, originally, it might have been like the jump we got last May or April, a lot of which was upping the 60 days cash and getting that where it needs to be. We were told last Wednesday this is largely a result of fuel costs. As fuel costs increase, they also increase the 60 days cash. If your fuel costs increase 20%, then, the 60 days cash for fuel, increases by that 20%, also. That is the double hit Mrs. Hurtubise was talking about. We are comfortable with this increase maintaining us for next month, unless some catastrophic increase happens with natural gas, but we are not optimistic that we will be able to lower it next month. We are hoping down the road in a couple of months that things will back off, and we will be able to give some of the PCA back and bring it down.

Mr. Drummond said, essentially, we will just be nervously opening the bill next month. Mr. Thiess said we have had some discussions with FMPA last Wednesday about trying to get the communications a little better when they have knowledge of what is coming down the pike, so we have a little more advanced warning. Mr. Fontes said we have a three month rate forecast, because we have a hedge program, and we have a weight cog, and we weigh the average cost of gas, and we kind of have an idea. What happens is, literally, gas moves \$2.00 between now and then. Gas is so volatile, commodity prices move from 12 to 20 percent in a month. When you see a volatility of 20% a month, it is very hard to predict. We use the forward NYMEX curve, which is an indication in the market of what prices will be for the next three or four months. Futures are about level, between \$12.00 and \$13.00 through the fall. We think our rates are stable. The last month's adjustment doubled up because of the units that are out of service. Stanton II, the coal unit, was out for a major overhaul, so it was out longer, and we had to burn more gas to cover that load. Those units are all back in service now. If the gas stays at \$12.00 or so, we should be okay through the summer if the NYMEX is an accurate predictor of what actual slot prices are going to be.

Mr. Perona said not that long ago, he remembers we actually got a credit on our bill. It is amazing that our customers actually know what Power Cost Adjustment really is. He had a gentleman today come and talk to him. He was talking about Power Cost Adjustment, and he said, you know, it's almost exactly the same amount as your rate. He thinks we have to be really careful in talking about the future, because he remembers conversations where these were adjustments that got us ahead of the curve and that, hopefully, in September, maybe, we can back off and be in good shape. With fuel costs going like they are – first of all he would like to say staff is doing its job by getting it out there real early – everybody shares the shock here. It is part of doing business. It is getting very difficult to do, with gas prices as volatile as they are, and he is thinking this is not going to be over for a while. Mr. Fontes shares his thoughts about being forward-looking. We can give you our best estimates and give you the assumptions we use and why and where we get the information, but, ultimately, we're at the mercy of the market. He asked Mrs. Hurtubise to go back to the chart indicating gas prices. You can see in January, gas prices were very low. It was a mild winter. Gas was plentiful. Storage numbers were historically high. There was a cold snap in the northwest in February and March. It was snowing in Colorado in the middle of May. Gas prices shot up. Mr. Fontes said FMPA's budget for this year was \$8.50. That was a conservative number, actually a little high. We were doing okay until it snowed heavily in February.

Mr. Summerhays said we also have to remember, it's not just our demand and it's not just our hedge people, it's also China and India and the whole developing world. There is a sudden spike in demand for both oil and natural gas from these folks that is driving prices up. We are buying a lot of this stuff overseas, and the value of our dollar keeps dropping. It is not any one thing. These crazy spikes seem to have more emotion attached to them than common sense. He is hoping and praying that some of the speculators that are buying up oil and gas end up getting burned really badly. Mr. Fontes said if we ran this curve back 12 months past October of 2006, you would see a clock cleaning that went on with people buying gas after the hurricanes and anticipating hurricanes in 2005 and 2006 that didn't materialize, holding on to those gas contracts. The price dropped so precipitously that our hedge program was actually reversed. We were \$100,000,000 to the good in one month and two months later we were \$2.5 million under water. We are back up again, but we took a bath there, too. These are open, free markets. They are not government controlled. It is not Venezuela. It is people buying and selling gas based on what they think they can do with their capital. There are

some very big players in the market even though it is a federally regulated transmission system. The commodity, itself, is deregulated. He promised Mr. Thiess we are going to do the very best job in getting information to you as accurate as we can give.

Mr. Drummond said he understands all the intellectual arguments that go into why we are where we are, but he also feels strongly that we, as a Utility, have an obligation to our ratepayers to try to bring as much certainty as we can, recognizing the volatility of the market right now. These individuals are just trying to make it from month to month. He thinks it is better to charge a little more and have predictability, versus having it just hit them all of a sudden. Mr. Summerhays said we have an averaging program. Mr. Drummond understands that, which is a little late at this point in time of the year. Mr. Fontes said he hopes we have all learned a lesson. We have attenuated and refined our rate mechanism. It is a pay as you go system. There may be ways to deal with these rising costs that we haven't thought about. We have staff and members who are thinking about this and making recommendations all the time. We are very conscious of the problems you face with the results of the market we are in providing your electric supply. We are doing everything we can to ferret that out and be as accurate as possible and cut costs where we can.

Mr. Drummond said he only speaks for himself as one member, and he is not necessarily in a position of feeling we have to be made whole, immediately. He thinks these increases have just really hit our ratepayers, and he understands we want to stay ahead of it, but at some point, he thinks we have to look in terms of the dollars we have and in terms of whether we have to stay ahead of everyone else, and whether we will weather the storm and assume some of the risks as we go forward. That is just how he feels about it.

Mayor Benton said he agrees. Last month and the month before he sat here and was talking about the crystal ball being cloudy with the City because of unexpected issues. Tallahassee put some restraints on us, and we couldn't give raises for the City. We don't know what kind of finances we'll have.

Last meeting we gave a 4.5% raise here at the UA. He didn't support that, but if he had known this a month ago, he thinks that might have weighed a little differently. Mr. Summerhays said this doesn't have anything to do with that. This is a pass-through, dollar for dollar. Mayor Benton said if we don't approve this \$12.00 increase, today, it is going to take out of our reserves, and that is what the reserves are there for – that rainy day. When the economy is unexpected, and we know this could be coming down, we have to tighten the belt. Tighten the belt means everything can't be passed on to the consumer. It is killing everyone. Mr. Summerhays said as directors we have a fiduciary responsibility to keep this utility whole. It would be financially irresponsible not to pass this cost through. We have no choice. We do not have sufficient reserves to absorb this. Mayor Benton said right.

He asked Mr. Thiess if we were to, instead of going to the \$12.00 this month, if we went to half of that, what would it cost us out of our reserves. Mr. Thiess said if we get a similar bill this coming month in June that we got for May, on the May bill we dropped to \$1 million in PCA under recovery, so if we did nothing, we would have \$2 million under recovery with an identical bill in June. The PCA increase of \$12.00 won't go into effect until July. No matter what we do, if the June Bill is the same as the May bill, we're going to be the better part of \$2 million in under recovery on the PCA. If we only did half of that, we'd be going into a deeper hole in July and not even keep pace with the cost, but going more negative on under

recovery. As distasteful as it is to put that big an increase after the \$8.00 increase in April, he thinks we put ourselves in serious financial jeopardy to not at least match the pace that the wholesale power is increasing, because we would be gambling on something happening to keep us from having serious under recovery. He thinks that is not a responsible way to go.

Mayor Benton said he understands that, but it has been very difficult to get this information in a matter of four or five days to digest it. He thinks we need to consider – like he said about the raises last month – he thinks we need to start tightening our belt and wondering what's coming around the corner next as we are doing throughout the State of Florida and what our economy is making us do. He is a little frustrated, because that is the way the public is perceiving this – we are not tightening our belt the way we need to. This is beyond us. There is not much we can do about this. It is like the price of gasoline. Mr. Thiess said this is very short notice. We received the bill on Tuesday afternoon, and we had the agenda item written Wednesday before lunch. That is how quickly we acted, because we felt if we didn't and missed this Board Meeting and carried it to the July Board Meeting, we would lose another month. Last year we had three hits of about \$500,000 in adjustments on the bill for three months straight. In talking with FMPA folks, next month's bill may not be significantly different than this one. If we hadn't acted quickly, we could have run a \$3 million deficit in the matter of three months. That would put us in a hole we would be very uncomfortable in digging ourselves out of with a higher PCA. He thinks it is safe to say for all of us, we're in uncharted territory here with the fuel prices and the volatility of the market.

Mr. Perona said he thinks with not knowing this was going to happen, he thinks we need to visit these PCA's on a very constant basis. He doesn't want to give our ratepayers the idea that once we raise the Power Cost Adjustment to a certain level that we will just nonchalantly leave it out there for a while. He is more interested in bringing it down. Speaking on Power Cost Adjustment, in the past we have always looked to the time we could lower it. He remembers September sticking in his head as the time we would more than likely be able to adjust it more advantageously to our ratepayers. He wants to look at this every possible time we can to make sure we are not hanging it up there as a fixed expense to our ratepayers. It is not set up to bank monies. With that assurance it is more acceptable to him to keep up with the trend and ensure we don't go into a loss. He thinks Mr. Summerhays hit it on the head. It is our fiduciary responsibility. It is also our fiduciary responsibility to make sure it does come down as fast as it goes up.

Motion by Mr. Perona, seconded by Mr. Summerhays that the Electric Power Cost Adjustment for the period of July 1, 2008 through July 31, 2008 be set at \$54.00 per thousand kilowatt hours. Motion unanimously carried.

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Mr. Javier Cisneros of Water/Wastewater Engineering presented a request for approval of a post budgeted work order. He explained US 1 from Edwards Road to Taylor Creek Bridge is a 3.8 mile FDOT milling and resurfacing project. The roadway construction will begin in the next couple of months. Prior to the roadway improvements we would like to complete utility adjustments, address drainage and signalization conflicts. In addition we will replace approximately 5,500 linear feet of six inch cast iron pipe water main. Our 2008 Unite Price Contract purchase order has sufficient funds to complete the 2008 work estimated at \$59,000. The remaining funds will be budgeted in 2009 and 2010. In order to facilitate the

FDOT schedule, staff recommends approval of the post budgeted work order in the amount of \$809,000.

Mr. Drummond said any time he sees post budget he gets the understanding in his mind that this is something that has happened that we have on-going and now we have to deal with it past the budget period. As he is understanding this, we are basically getting ahead of what we anticipate FDOT is going to do with US 1; therefore, we are going to definitely see it in our budget for 2009 and 2010. That doesn't sound like post-budget to him. It sounds like we know it's coming, and we have a chance to plan for it, and there is only \$59,000 that is even suggested in this Fiscal Year. Are we avoiding the possibility of having a different contractor do the work or going out for bid or anything of this nature? Why do we need to do the whole \$809,000 as a post-budgeted item? Mr. Cisneros said in the past we have approved the project and analyzed what we need to replace and do our best guess as to what we need to spend in each year to replace the pipeline to avoid utility adjustments. The post-budget work order is to approve the project. We could go out to bid, but in our experience, bidding this type of project is difficult, because you don't really know what to expect until you get out there in the field.

Mr. Thiess said we have done a number of these projects. We are wrapping up 25<sup>th</sup> Street South. We have 25<sup>th</sup> Street North in full swing now. A-1-A is going like crazy. We have two ways we do these projects. Neither of them involves bidding them. Bidding these projects is very difficult, because you have a general idea of what you are going to do, but once you get in there, it always changes. The two ways we've approached these projects are either use the City's or County's or DOT's utility subcontractor to do the work and negotiate a price with them, because they are in there, mobilized and on-site. Generally, we get pretty decent prices. We did that on South 25<sup>th</sup> Street. We used the utility sub for DOT's contractor. We did some of it on A-1-A, and we used our unit price contractor there, too, where it has been better from a cost standpoint. North 25<sup>th</sup> Street has been done mostly by our unit price contractor. Getting a bid package put together is very difficult, because it is hard to nail down the quantities and characterize the utility coordination necessary for a contractor to bid it and be accurate on his bids. We found those bids usually come in very high. Not only that, the coordination issues with that other contractor working with DOT's utility contractor and getting out of the way of DOT's road contractor creates a whole bunch of problems. We've found it more costly, more time consuming, and generally not nearly as beneficial to our ratepayers as using our contractor or going with the road contractor's utility sub.

Mr. Drummond asked if we did an analysis between using ours, versus FDOT's subcontractor to see which one was more advantageous. Mr. Thiess said he doesn't know that we have on this project. He asked Mr. Cisneros if we're doing this work ahead of the FDOT work. Mr. Cisneros said most of our work will be done ahead of schedule. Mr. Thiess said if we can do the work ahead of time, it is generally more cost effective for us to use our unit price contractor. We have looked at bid prices compared to our unit price contractor, and generally our unit prices are far better than bid prices. Mr. Drummond said he would be a lot more comfortable if there had been some analysis, and we said, okay, in this particular instance using our unit price contractor, we're going to save \$40,000 to \$50,000 doing it this way or something. There's got to be some rationale for getting ahead of this DOT contractor and saying this is a better way. He is looking at something to say this is why staff is recommending it. Mr. Thiess said he is not sure if the utility sub has been identified on this project yet. Mr. Cisneros said he is not sure. Ranger is their roadway contractor. He can add

that DOT is going to pay for some of the adjustments on US 1. We will be paying for the adjustments we've agreed upon with DOT. Most of the money is going to go toward replacement of existing pipelines that we need to replace, anyway. It is not necessarily that we wouldn't bid it with the roadway contractor, it's just that pipeline happens to be in US 1 that is part of our R&R program.

Motion by Mr. Summerhays, seconded by Mayor Benton that the post budget request in the amount of \$809,000 for water and wastewater utility adjustments for US 1 milling and resurfacing project from Edwards Road to Taylor Creek Bridge be approved. The motion was carried with Mr. Perona, Mr. Summerhays and Mayor Benton voting yes. Mr. Drummond voted no.

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Mr. Thiess said a couple of meetings ago there was a brochure the Mayor brought in about this device that guaranteed a savings of 25%. We had our Electrical Engineering Department go to their Continuing Contract Electrical Engineer to have an analysis done on this. He asked Mr. Bill Baldwin to summarize their report.

Mr. Baldwin said he does have a copy of the consultant's report. He distributed a copy of R. W. Beck's report to the Board Members.

Mr. Baldwin said he was given this brochure advertising the PS1200, and they had some claims for this device that residential customers could save up to 25% on their power bill. Whenever we see something like that it catches all of our attention. When he hears about something like that he is a bit skeptical, so we asked our consultants to take a look, and they have prepared a report. He commends them for doing a thorough job. He would like to summarize their findings.

The PS1200 is a grey box with a capacitor in it. The basis of their claim is the homeowner will save money by improving their power factor. Power factor is very important to us; however, he does have a problem with their claim that it will save homeowners money. The complication we get into when we discuss power measurement is that we have to use terms like real power, reactive power and apparent power. He would like to try to define those terms. Real power is power that does work, power that is consumed in the customers' load, such as filaments in light bulbs, heating elements for cooking and hot water, and motors for air conditioners and washing machines. Reactive power is power that does not do work. It is power that circulates in response to what we call reactive elements in the electric circuit, capacitors and inductors. In a home a battery on charge would be a good example of a capacitor that would provide some capacitive reactance. A motor is a typical source of inductive reactance. The two tend to counteract each other. That is what their claim is based on – most of us have more motors running than we have batteries on charge, so they can add a capacitor and improve your power factor. In high school physics we were all introduced to a power triangle. That gives us a method to draw a picture of this to try to get a visual on it. He brought one to show the Board. On this power triangle the base represents the magnitude of the real power, the part that does work, the part that is useful to us. On the side of our triangle we see the reactive power, and that is the part that oscillates in the circuit; it doesn't do anybody any good, but it's always there. He has heard it compared to motion on a trampoline. If you try to walk across a trampoline, you'll have some upward motion. It is really part of propelling you forward, but it is obviously counter to the direction you're headed, and

it's always there. The long side of our triangle is the apparent power, and that's what they are talking about. If you were to reduce that side of the triangle, you would reduce the apparent power. That is what they are hoping to do. Most of us don't have a lot of batteries on charge, and they're hoping to add some to counteract the motor load from our washing machines, etc. As you reduce that side of the triangle, it doesn't do anything to reduce the base of the triangle. Those two are the same length. The bad news for them is our residential revenue meters, just like everyone else's in the world, only measure the real power part of it. The more you reduce the apparent power, it doesn't do anything for your bill. Clearly, this is not going to save anyone 25% on their power bill. They also claim this will provide surge protection. He did a little research at Home Depot, and for \$40 you can buy a plug-in surge protector that provides 30% more protection. It is 2,600 joules. In their specifications, theirs is 2,000 joules. Clearly, he doesn't think we should recommend this to our customers.

Mayor Benton thanked Mr. Baldwin. He stated that is what he was expecting to hear, but he wanted to hear it from the experts. At a time like this, people are vulnerable. He knows people who have put this apparatus on their home. He has heard it from elected officials who think this is going to work. He wanted to hear from the experts, so he won't be pushing it and won't be asking the City to do this instead of weatherization. He thanked Mr. Baldwin very much. We have the facts now.

Mr. Thiess asked if it addressed whether or not it would benefit the bigger industrial users. Mr. Baldwin said he doesn't think this device would. This type of power factor correction would help some of our larger customers and it would help us. We have some larger customers whose power factor is so bad that we penalize them for it. We bill them for the apparent power that shows up on the long side of the triangle. The reason we do that is not because it costs us more in generation or more in anything. The reality is this is power, current flowing inside our devices, so it is consuming the capacity of our wires, transformers and our system. We have some industrial customers on Selvitz Road area near the airport. Mayor Benton said somebody like Tropicana could save some money. Mr. Baldwin said yes. Mayor Benton said it will not help residential customers. Mr. Baldwin said it will not help the residential customers due to the way we measure now.

Mr. Perona said he got on their website. It is pretty interesting. They show the power factor with and without the device. Mr. Baldwin said our meter would never see that. Mayor Benton said if you had an existing home and you put this device on it, you could compare it with last year's bill or last month's bill. To a new home, which is going to be more energy efficient than most, it is hard to compare. He believes they hooked one of these up at the City marina, so it will be interesting to see a comparison. His concern was going into the summer if it was going to help the residential consumer, we really needed to take a look at it for the price tag. His job is to get that information out to the public. He will see that a lot of copies of this report are made and given to the people promoting this.

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Mr. Harry Zuker, property manager of two of the larger commercial properties in town, asked to address the Board. Those properties are the Orange Blossom Business Center and the Florida Furniture Mart. He comes to have a little discussion with the Board. He heard them mention the economical electrical service to our community, and that is the purpose of this Board. He is currently paying for approximately 100 meters that we do not use. There are no tenants in the space. He should be paying a minimum charge on all of them of \$15.58 per

electric meter, which adds up to \$1,600 per month. He has contacted FPUA about removing these meters, and, when he has tenants, putting them back in. Every bay is individually metered, so the tenants pay their own electric. He has been told that if he removes them, he will have to pay an impact fee when he reinstalls them and pay the back months times the \$15.58.

Mr. Thiess said the way the resolution reads now, you would pay to reinstate the service on that meter, the back inactive account fees, unless it went past five years. If it went past five years, at that point you'd have to pay the Capital Improvement Charges and start over. Mr. Zuker asked if the inactive account fee is \$15.00. Mr. Thiess said it is \$6.00 for electric. With electric, water and sewer, it adds up to about \$30 on a residential meter. He doesn't know what size meter he has. Mr. Thiess said electric, only, depends on the meter size. Mr. Zuker said it is not a three phase. Mr. Thiess said we have a base charge for different electric services. If you have the meter pulled, you get no charge. At the time that meter is reinstalled, if you have two years worth of inactive account fees, those two years are caught up, and you're good to go. There is no payment of Capital Improvement Charges on top of that. Capital Improvement Charges don't come in until you go five years with inactivity, and at that point, the way the resolution is written, you start over again paying new Capital Improvement Charges. Mr. Zuker said he was told that if FPUA did not have the capacity when he goes to reinstall the meters, he could have to pay Capital Improvement Charges. Mr. Thiess said no. The way the resolution is written, you have to go five years inactive. Mr. Zuker said it is the same dollars, whether he pays \$15 per month now or in a year from now, pays \$15 times 12. It is the same dollars out of his pocket for not using your electricity. Mr. Thiess said yes, but there is not a Capital Improvement Charge. Mr. Zuker said so why would I ask you to pull them? Mr. Thiess said it is the customer's decision. If you don't want to pay now, you can pay later when you reinstate the service, or some properties are owned by banks, they're in foreclosure. They would just not pay it and when the property changes hands if it is over five years, the new owner would have to pay Capital Improvement Charges. If it is under five years, typically, for a new owner, we've just been writing that off. Mr. Zuker said you probably have individual condominiums or houses where an owner wants to get rid of a meter or turn it off because nobody is there. You haven't put thought to having commercial projects with 100 meters that sit there every month not being used, yet you have a property owner who is paying \$1,600 or greater per month to not use your electricity.

Mr. Drummond said we would have to go back and revisit the entire policy, because we can't address it for just one. We would have to look at the entire system. He asked if Mr. Zuker had an opportunity to discuss the matter completely with staff in terms of exactly the impact on your business, and they were unable to satisfy you or give you a resolution, so you are asking for some sort of change in the policy from this Board. Mr. Zuker said that is correct. He would like the Board to revisit the policy and consider a change. Mr. Drummond said given the fact that this section of the meeting is for public comment what he would ask is that staff would agenda such a discussion, so we can have the information in front of us with regard to the entire policy and whether or not it would make sense for us to go back and revisit it and look in terms of whether or not they would want to recommend that we look at different charges for different size accounts or something of that nature. He would rather be comprehensive rather than looking at one. Mr. Zuker said that would be perfect. Mr. Drummond said if everyone is in agreement, we will just ask that staff agenda this and bring it back.

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There being no further business, the meeting was adjourned.

ATTEST:

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SECRETARY

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CHAIRMAN