

MINUTES OF A REGULAR MEETING OF THE FORT PIERCE UTILITIES AUTHORITY, TUESDAY, JANUARY 18, 2011, 4:00 P.M., CITY COMMISSION CHAMBERS.

Members Present: Chairman, Darrell Drummond; Vice Chairman, Pamela K. Cully; Secretary, Michael A. Perri, Jr.; Deputy Secretary, Robert W. Summerhays, Jr.; Mayor Robert J. Benton III; and David Recor, Ex-Officio Member/City Manager (*arrived at 4:05*).

Others present: William G. Thiess, Director of Utilities; Rupert N. Koblegard, III, FPUA Attorney; Nina Hurtubise, Director of Finance; Timothy E. Perkins, Director Water/Wastewater Systems; Eve Walker, Director of Shared Services; and Thomas W. Richards, Director of Electric and Gas Systems.

The meeting was called to order by Chairman Drummond.

Invocation by Reverend Sue Renard of Aglow International, Palm City, Florida.

The *Pledge of Allegiance* was recited.

The roll was called and a quorum declared.

Nina Hurtubise presented the Government Finance Officers Association's Certificate of Achievement for Excellence in Financial Reporting Award for FPUA's FY 2009 Comprehensive Annual Financial Report. She said she is currently working on FY 2010 and this is year 15. Ms. Hurtubise said she is proud of her entire staff and everyone who contributes to making this possible.

Mr. Drummond said after 15 it seems as though it is something that is automatic, but as we have heard before, a very small percentage of agencies throughout the United States are actually awarded this certificate.

Marty Laven of 2400 South Ocean Drive, V1115, Fort Pierce, Florida, said he attended a planning and zoning meeting of the City of Fort Pierce recently and there was a vigorous discussion about photometrics and he said he does not know what it means. It relates to the luminous and foot candles and code for parking lot lights. Mr. Laven said the issue seems to be code and requirements possibly for 150 watts or the new code of 250 watt street lights. He said FPUA is heavily involved in this and he has no expertise in lighting, but the little he knows from being in the renewable energy industry is that both LED lights and solar lights, although they are very cost prohibited for the investment that is to be made, there are tax credits that can offset that capital investment or the possibility of performance contracts. Mr. Laven said he just wanted to bring the issue of photometrics to the attention of FPUA and the suggestion that someone with greater knowledge and expertise than himself look into it so they can find some way to offset the expenditures as we go around our community and redo the lights.

A motion was made by Mr. Perri, seconded by Mr. Summerhays and unanimously carried to approve the one item listed on the Consent Agenda:

1. Approval of the Minutes of the Regular Meeting of January 4, 2010.

Bill Harrington of WHH Enterprises, Inc. presented the summary of the Analysis of All Requirements Project Exit Alternatives Report. Mr. Harrington passed out an updated copy of the report. He said the draft copy that is in the Board packets is a very preliminary draft sent to Mr. Richards to accommodate a meeting that was held in November. It was an early draft that was rushed so that Mr. Richards, Mr. Baldwin, and Mr. Cisneros would have it before the meeting. He apologized because he knows there were typos in it. He and Mr. Richards worked on the calculations and the numbers in this final version are very similar, but are changed just a little bit and the conclusion is still the same. Mr. Harrington said he is happy to be here and he used to do some sailing here up around the power plant on the Indian River. He said WHH Enterprises is a small Florida Consultant firm, is new, provides service primarily to municipal utilities and has been consulting since 1997. Depending on the nature of the tasks, he sometimes brings in extra people with specific skills necessary to respond to typically bigger jobs. This report is a good example of his practice, small, \$10,000 to \$30,000 jobs that some of the big boys have very little interest in chasing. Mr. Harrington said his utility experience is primarily at the Orlando Utilities Commission (OUC) where he was the Senior Vice President for the electric business unit. He said Orlando provides both water and electric and he ran the electric side of the business. This included generation, transmission, and distribution, which he did for about 12 years. He is going to mention some of the recent cities he has worked for. Relevant to some of the issues he is going to discuss tonight, the City of Bartow just went out for power supply and their contract started the first of January of this year. Mr. Harrington said he was very heavily involved in that solicitation and negotiation of a contract. Right now a little town called Wauchula is out for bid and the bids are due March 3rd. Quincy just recently went out for bid and it was awarded. They are a small municipal utility up in the panhandle west of Tallahassee. Lake City, Live Oak, and Mariana he does work for their natural gas systems. A lot of the other cities do not have municipal utilities but are interested in forming one and he works with them such as Marco Island, Cape Coral, and Fort Lauderdale. They have all investigated forming a municipal utility and he worked with them. Mr. Harrington said he has been in the business for 42 years, is a registered engineer in Florida, received a Bachelor of Science at the University of Florida in Gainesville, has an MBA, and additional post graduate work in finance.

Mr. Harrington said he did not know the nature of the scene here in Fort Pierce and he tries to make his presentation so they can be well understood by both the layman and the experienced personnel such as this Board. Bulk power supply, which is the cost to generate the power and

transmit it to this City, typically represents about 75% of the cost of electricity. This is important because if you ask your customers what is the most important thing about electrical service, the first thing they will say is rates. They do not want to talk about reliability and tree trimming and that kind of stuff. The first thing they want to talk about is rates and 75% of FPUA costs are tied up in bulk power supply so it is an area that needs focus. Mr. Harrington said Fort Pierce Utilities Authority (FPUA) has a 30-year contract with Florida Municipal Power Agency (FMPA), the All Requirements services. He said when they say All Requirements, they give FPUA everything, and FPUA is not allowed to buy anything from anybody else. They supply FPUA their total supply and FPUA's peak load is 115 megawatts. FPUA owns some generation, 49 megawatts total and St. Lucie Nuclear is accounted for separately. FPUA gets all the costs and benefits for that nuclear plant separately from FMPA. Almost 37 megawatts of coal capacity has been assigned to FMPA. FPUA owns it, but gives it back to FMPA and it is thrown into the pot with all their other resources. It is not treated separately; other people get part of that power. FMPA's rates have been high the past couple of years and have been above market and that has brought some attention. Mr. Harrington said he is working on some bulk power supply proposals and these four are the most recent in Florida that he is proud and honored to say he has worked on every one of them; Bartow, Winter Park, Quincy, and Alachua. Some people ask what the price of power supply in Florida is and it is hard to get an answer, particularly when talking to an engineer. They start talking megawatt months. In Bartow, they just went out for bid last year and negotiated the contract last fall. Orlando Utilities was the successful bidder and it is a 7-year contract. Bartow is a little smaller than FPUA and the price they expect to pay this year is about \$71.10, which is the evaluated price and includes transmission. That is the price Bartow will pay delivered to their substation. Winter Park also just went out for bid and they are the newest municipal electrical system in Florida. Mr. Harrington said his ex-partner, Jerry Warren, is the utility director there. They got a very innovative proposal, a joint venture from Progress Energy which is the old Florida Power Corp, and Seminole Electric. Seminole is an FMPA-like agency that supplies power only to the co-ops in the state. They worked together to turn in a contract for \$69.22, which is the expected price for next year. Winter Park is right at the same size as FPUA at about 110 megawatts. FPUA is about 115. Quincy is up in the panhandle and their peak load is about 20 megawatts and that might be a stretch. They went out for bid and surprisingly FMPA with the high rates turned in the most attractive proposal. Their contract started the first of January this year. They pay for 20 megawatts at \$69.68. Alachua, which is a town just north of Gainesville, went out for bid and Progress Energy and Gainesville Regional Utilities are the two situated to serve them. They have a 20-year contract with a peak load of 26 megawatts and pay \$71.05. Mr. Harrington said a couple of points he wanted to make is that it is incredible that they go out for four different bids and get bids within \$1.00 or \$1.50 of each other. He would expect plus or minus \$2 or \$3 would be reflected over 1 to 1 ½ years. That is a low level and is very close. If someone would ask if he knew what the bulk power supply market with the State of Florida for the year 2011, he would answer the question with \$70 per megawatt hour. It is appropriate that they review the bulk power supply situation for FPUA. It represents the bulk of FPUA costs. Currently the prices are high and the market is low, and this is the time to look at it.

Mr. Harrington said his wife asked him what he was doing today and he said he was going to be doing a presentation on CROD, or Contract Rate of Delivery. It is difficult to exit the FMPA contract, which is a lot of money in FPUA's case, a couple hundred million dollars or they want 31-year notice. The only other way FPUA can reduce their obligation is with the CROD, which basically limits their purchase of power to them at today's level and it stays fixed as long as FPUA is a member of FMPA. For discussion purposes, let's say that number is 65 megawatts, which it is, that means from now on if FPUA exercises this, they have to buy 65 megawatts from FMPA. If we add 65 plus 49 that FPUA owns, we get pretty close to 115. Where it gets complex, is that in the middle of the night, FPUA's load is only 30 megawatts, so how do we handle the 65 that we have to buy from FMPA? That is where it gets complicated and it basically is a pro-rata deal. If FPUA's load is 30, first we get our nuclear, which is 12 and subtract that. Then you have to buy a certain percent from FMPA and it changes every year. FPUA has to buy every hour and has to buy 50% of their requirement from FMPA for the next 30 years or so. There might be different interpretations of that but Mr. Harrington said he and Mr. Richards agree on the interpretation. He said Mr. Richards has talked to FMPA about it. Mr. Harrington said there is one little catch in the program and that is FMPA gets to adjust this 65 megawatts by plus or minus 15% at their will. This is an onerous provision of the contract and Mr. Harrington said he has never liked these contracts. They contribute to some of the tension in the FMPA. It is his believe there is no reason to have a 15% up or down adjustment. Basically, if their power is cheap and below market, they are going to ratchet FPUA down 15% so even though they have paid for it over the years, they will not get it because they are going to reduce it. He said, if they believe their power is above market, they are going to make FPUA buy a little extra of it, basically penalize you. We all agree that FPUA should have to buy about 65 megawatts or about 50%, they are going to make you buy 75%.

Mr. Harrington said he did what FPUA requested and built a model of FPUA's bulk power supply. He looked at the hourly loads for the next 20 years, every hour of every year for the next 20 years. Back in the old days we used to have to guess at this stuff and now we have this monstrous excel spreadsheet that does all the calculations. At every hour if it is 30, he took 12 from nuclear and took the load shared percentage for that year that has to be bought from ARP, and then asked how much more is needed. If it is less than 36, which is how much coal is owned, we take that and if there is some leftover we would sell it into the market. If we were short then we would have to go out in the market and buy. He did that for every hour, which is 160,000 hours and calculated it at what the costs would be. Mr. Harrington said he tried to be very consistent with his estimate of costs. He said FMPA has an extensive budget process just as FPUA does. They went through these exercises last February or March and presented forecasts for all their fuel projections. He used those even though in some cases he knew they were a little raw, but he did not want to use old data in some cases and new data in other cases. It would obscure the results. The numbers at that time were very consistent or internally consistent. The price of gas reflected the current price of coal and all the numbers made sense. Some may say this gas price has changed \$0.40 in the last eight months. They

would know it had. If he had updated the gas then he would have to update the coal and if he updated the coal, he would have to update the nuclear and then we are in a circle. He used FMPA forecasts, which he believes are really RW Beck's numbers to be consistent. He also used their numbers for St. Lucie capacity, for coal capacity and the rest of the FMPA stuff. Based on his own knowledge, he estimated the cost of power that FPUA had to buy out in the market. As FPUA grows in the future and exercised CROD, they will have to buy additional power in the market and he estimated that cost. The slide he brought up was to show they were raw numbers and he has been in the market extensively in the past year knows the market. On the chart, the results shown in the first row is FPUA's cost if they exercise CROD by serving notice to FMPA saying they are only buying 65 megawatts from them from now on. The second row is FPUA's cost for the next 15 years, if they do not exercise CROD. The third row, which is the significant number, what is the difference; do we save money or does it cost money to exercise CROD? There are several cases. The base case just means FPUA exercises CROD and they do no unilateral adjustments. Mr. Harrington said his numbers calculate that what FPUA will save at the present value, not just the sum of the savings, is \$74 million, which is not an inconsequential sum. That is a lot of money \$74 million over 15 years. What that means, on average, over the next 15 years, from 2016 to 2030, FPUA could reduce their retail price of power by \$11.89. FMPA has a unilateral option they can do for whatever reason to make FPUA buy instead of 65 megawatts, buy 75 megawatts. Mr. Harrington said he did the same calculations and since FPUA has to buy more of their power and get less utilization of their cheaper coal power and less utilization of cheap market power, the savings are reduced. The savings go from \$74 million to \$52 million. The low CROD is in case they felt very generous and say FPUA has been a strong supporter of FMPA, they will let them out by making them buy only 55 megawatts instead of 65 megawatts. The savings sky rocket to almost \$100 million to about \$16 per megawatt. There are two other things Mr. Harrington said he looked at because he did not know how they would be affected. Right now we are in a period of unusually low growth after the 2008 downturn so he tried to band it by putting the high growth in a more traditional range of 3%, particularly for Florida. He did a low growth which basically means FPUA does not sell another kilowatt hour for the next 15 years. Just keep selling what they are selling now. The base case was still \$74 million, but on the high growth it goes up to \$117 million. The reason is because FPUA is growing faster and needs more market power which is cheaper than FMPA. You could buy more of it and the 65 megawatts that is being bought from FMPA becomes significant when you are at 115, but when at 170 megawatts, it becomes a smaller and smaller penalty for FPUA to pay. The low growth means the electric sales stay the same from now on for this study period of 15 years and the savings are \$40 million, about \$17 per megawatt. Even in the low growth, the worse case, it appears based on the analysis, FPUA will still save money. Mr. Harrington said he is a numbers guy and asked himself how he would display this and tried to generate these tables and it did not work out as well as he would want. The table shows what FPUA has to buy from FMPA on the base case is 65 megawatts. It starts out at about 52% and goes down to just a little over 40% out to 2040. It does show that FPUA buys less and less as a percentage from FMPA. The coal capacity grows a little bit because as FPUA grows they can use it all the time. Right now in the middle of the night FPUA cannot use

their coal capacity. It is cheap, but they cannot use it. What is FPUA going to do with 36 megawatts of coal when the load is only 30 megawatts, so some of it gets underutilized? As it grows out in the future, FPUA gets to more effectively use the capacity. The dark green on the chart is what FPUA would buy in the market from a third party like OUC, FPL or whoever turns in the low bid. Before FPUA had to buy 52% of power from FMPA, now they have to buy 61%, which is the higher cost. FPUA gets to buy the least amount from the market, the cheapest power, and the coal is pretty cheap too. Additionally as he cranked through the numbers and the numbers are quite compelling and are going to change with every fuel forecast, but Mr. Harrington said he is fairly confident they are going to go negative without some disruptive events.

He likes to look at the qualitative issues and he had three. The generation gained is an economy of scale game. The FPL's and the Progress Energy's are just going to do a cheaper and better job than the little guys. He was a little guy and knows exactly that they buy fuel cheaper than we can, buy equipment cheaper than we can, and they buy services cheaper than we can. This is going to be challenging for FMPA, this is a head wind or a current they are swimming against. That does not mean they will not be successful at it, but it is difficult. The cheapest power in the State of Florida right now is the West County Energy Center, which is West Palm Beach County. That plant is incredibly cheap. They built it cheap, they are buying fuel cheap, and it is generating cheap electricity. That is FPL; they built that plant in three stages, each stage is 1,100 megawatts. One of the qualitative issues here is economy of scale. FMPA is at the lower end of the size range that can produce power cost effectively. Mr. Harrington said he is not saying that cannot do it, but they are at the lower end. Their capacity is about 1,500 megawatts, but a good portion of that is power they buy from FPL, OUC, plants they own with OUC, plants they own like St. Lucie and Crystal River. The actual power plants they run or plants they go out and compete for service, that number is less than a thousand megawatts.

Mr. Harrington said the second thing is financial exposure. When FPUA asked for their exit fee, their pro-rata share of FMPA's long term debt is \$90 million. We have all seen some unusual things happen in the market in the last two or three years. Ninety million dollars is a lot of money and it is FPUA's share and it is a lot like investing. He said he helps a lot of people with their investments and they ask if it should be in stocks and bonds or money market and he tells them he does not know, but he has some in all three of them. That is how he feels here. FPUA has all of their eggs in one basket and maybe needs to consider reducing that exposure. If something should happen to FMPA, it is going to be bad for every member and there is a way FPUA can reduce that exposure by effectively exercising CROD.

Mr. Harrington said the last one is he is not beating on FMPA, they have done a good job over the years and he has been a supporter of theirs. He worked on the job when KUA joined FMPA. FPUA lost some of its flexibility because they cannot build any generation and cannot install or buy solar from anybody without FMPA approval. There are a lot of things going on in the relationship between FMPA and its members that limits the flexibility of their member-

systems to basically run their utility like they want to. Right now FMPA has a high portion of demand rate which is based on peak usage. A lot of innovative utilities such as Leesburg and Jacksonville Beach have come up with programs to reduce their peak. Now they have come up with a way to recalculate their peak load. Unfortunately it has gotten adversarial. Mr. Harrington is working for the City of Fort Meade who is desperately trying to get out of FMPA and they do not have any flexibility. There are cost-effective things they can do, but the FMPA contract, which is the same one FPUA has, will not let them do. These are three qualitative issues that merit some consideration. Do they swing the day, no, but they should be considered in light of the harder analysis that has the actual numbers.

Mr. Harrington said his conclusion is he recommends FPUA exercise the Contract Rate of Delivery (CROD). There are some provisions and terms in there that are not fair. Whether FMPA will be amenable toward relooking at that, it is not FMPA's decision; it is the 14 member's decision. FMPA is Tom Richards and 13 other guys/girls. Maybe they will recognize that the tide has changed since that marker was signed. FMPA has no plans to expand capacity till 2019 and there is no reason for them to require five years notice. It does not change their planning. In the old days when it took five or seven years to plan a new generating unit to get it permitted, it made sense. You cannot have people bailing on you when have already started down the road toward a new unit. That does not exist right now; they may never build another unit and it is long out in the future. FPUA gives them five years notice, but they will not tell you whether the CROD is going to be plus 15% or minus 15% of the base until the month before you leave. Remember that FPUA has to go out in the market and buy power. How can you buy power in a month, you cannot. It takes nine months to issue an RFP, evaluate it, and line up transmission service. There are some technical flaws in the contract that hopefully FMPA will be willing to reconsider. If FPUA is going to do this, they need to start conducting some outreach with anybody that can help. There is a very active bulk power supply market. They typically get four, five, or six bids, but you want them to know that FPUA is alive and interested in purchasing bulk power supply. This is the amount that has to be bought from a third-party supply. FPUA is also going to need some transmission services. It is best to start these discussions now particularly if there is going to be a short notice so you can line up some possible solutions.

Mrs. Cully said Mr. Harrington talked about having the coal and the contract going out to 2030. If we take the CROD, is there a guarantee the coal is going to be cheap all the way through 2030?

Mr. Harrington said no. He took the best forecast and he took FMPA's forecast. Coal is the most stable priced fuel and gas is the most volatile fuel. Coal is the most stable and is not driven by foreign entities or things out of control. It is driven by mining conditions and wages of mine workers. We know there is plenty of coal, but the accessibility of it is a little more difficult. He would much rather forecast the future of coal prices than he would natural gas.

January 18, 2011

Page 8

Mrs. Cully asked if we exercise the CROD, then we have to go out and find our own bulk power supply we still are going to be up against those natural gas prices.

Mr. Harrington said he did not do fuel price cases because those same price pressures will effect FMPA and will not be a difference for FPUA.

Mrs. Cully said we are going to pay FMPA's price and then another price that we have to go out and find and negotiate. We will then have transmission costs we will have to worry about and NERC costs.

Mr. Harrington said FPUA would not have to worry about transmission costs. We know what it would be and basically know that it will be about half of inflation. If we say the price of power is \$80, about \$4 or \$5 of that is transmission. It will not change radically; it will go up a little less than inflation. The concerns about natural gas prices are correct. We should be worried about them now and that is why FMPA's prices were over \$110 two years ago.

Mrs. Cully asked if we should be worried about them now through 2045, which is what our contract would go all the way out to. In doing something like this, we are making ourselves very vulnerable by getting out there and not knowing what we are getting.

Mr. Harrington said Mrs. Cully said she would not know what they are getting, but right now he knows what FPUA is getting. You are getting \$95 power and the town of Alachua is getting \$70 power.

Mrs. Cully said that we know that right now.

Mr. Harrington said the reason he mentions it is because he knows that, but we do not know in the future. We know what happened last year and it was not good. We know what happened the year before and it was not good. The market can get tight and if you get caught in the position where you are thrown out into a tight market, you could over pay. You could overpay for the third party purchases which works out to 5% or 8% of your requirement. There is a very competitive market for bulk power supply and he likes to play the guys against each other. He said he does not always get the price he considers low, but he will get the best price in the market. What else could we strive for other than getting the best price in the market and the only way we can do that is frequently access the market, get all the right players in here, make it easy for them to bid, and let them give you the best prices.

Mrs. Cully said she does not want to argue because she agrees with what Mr. Harrington is saying, but it seems like we will be out there doing it on our own not with 13 other cities.

Mr. Harrington asked if Mrs. Cully meant like Wauchula is doing.

Mrs. Cully said yes or like Quincy or Bartow.

Mr. Harrington said she is right. He is handling Wauchula's thing and their fee is \$13,000 and there will be a 5-year contract. Every five years they will have to pay someone like himself \$13,000 to \$15,000 to go out and line up the supply. Do I bring a lot of value? He would like to think so. What is bringing in the real value is putting Seminole against OUC against Progress. Those guys are in business to make money and they want the business. If you have three or four guys bidding for your business, Mr. Harrington said he feels comfortable doing that. He said he agrees with Mrs. Cully that FPUA does not have to worry about procurement of power supply if it is turned over to FMPA, but you also have to accept the results. The reason we are having this discussion is the results have not been good. It is not fate that it has not been good, there have been some issues. Hopefully FPUA can avoid those.

Mr. Drummond asked Mr. Harrington if he is suggesting in his presentation that commerce and scales is something that FMPA is working against and he does not forecast that they are going to increase their capacity in membership or generation.

Mr. Harrington said they had 15 members, one has left (Vero), one leaves in 2014 (Lake Worth), three other members have given their 30-year notice to get out, five of the 15 members are basically gone. If you are asking if that is going to continue, he does not know. Certainly, if Fort Pierce exercises their CROD, then that is another step. Mr. Harrington said he knows two or three other members are trying to get out and he does not know any that are trying to get in.

Mr. Drummond said the 20-year forecast does not suggest that FMPA's wholesale cost is going to start to fall and be competitive with what the market is right now.

Mr. Harrington said he used their forecast and pulled the numbers on the chart right out of their forecast down to the penny and they show increases every year.

Mayor Benton said he wanted to say thank you to Mr. Harrington for calling him because there was a little attention given by us giving FPL a call. He said, in his opinion, something had to be done. He likes what he is hearing because, in his opinion, our problem is our hands are tied up here and have been because of an agreement that has been going on for some time. We have no choice but to go out and competitively buy power now. This, in his opinion, gives us the chance as growth comes in five years where we can go out in the market where it will be competitive with the big guys. We are the little guy in this world that is having a very difficult time. We have seen what FPL and Progressive Energy have done. In his opinion, this gives us a chance for that option to go out and buy power he hopes at a cheaper price if we go there. Untie those hands of people that are going to sit here in the future.

Mr. Perri asked if the Cities of Starke and Green Cove Springs are exercising the CROD.

Mr. Harrington said he hears a lot of stories up there. One of the things is it is very difficult for a city that does not own any generation to exercise CROD. Fort Meade does not own any generation and has exercised CROD, but it is a lot easier for Vero, Lakes Worth, and FPUA that has generation. It eases the burden. If you are Green Cove Springs and you exercise CROD, the next year they have to buy 100% of their power from the ARP. Next year it goes down to 99% or whatever the growth rate is. It is a longer and more difficult process. Green Cove Springs has given their 30-year notice to quit, but have not exercised CROD. Mr. Harrington said he is not current on Green Cove Springs. He knows there are discussions with Clay Electric Co-op which surrounds them and has fairly attractive prices for Clay to take it over. The contract permits that, if Clay assumes the FMPA contract, which is the obstacle.

Mr. Perri said Mr. Harrington answered his question as to whether Green Cove Springs had any generation.

Mr. Drummond said in the report it is suggested that the dates we would have to comply, if indeed we wanted to exercise our CROD, is that December?

Mr. Harrington said Mr. Richards told him there was some concern about climate change legislation. Climate change considerations are complicated and the public generally has some confusion understanding it. Everything emits CO₂ including us. Anytime you burn fuel, you emit CO₂, so it is not a coal phenomenon. It is a fuel burning phenomenon; it is a vision phenomenon. Forty percent of the CO₂ emissions in the United States come from power plants. That is where the biggest percentage comes from and they are holding on to a couple of large entities so they are easy to control. Thirty-three percent comes from our cars. Mr. Harrington said he has not heard a lot of talk about going out and limiting the amount of miles we drive every year. The other thing that is a misconception is people think CO₂ is coal, but gas emits CO₂. It does not emit as much as coal, only about half as much. All fossil fuels emit CO₂ and only nuclear does not. CO₂ legislation outlook is very uncertain and with Republicans controlling the house nothing is going to happen for a couple of years. The debate continues regarding the effect of global warming and of course these people in the paper damning disclosures on some emails by some scientist kind of hurt the argument. The international agreement is very difficult. Everybody agrees that when you get to our level, the capping of CO₂ emissions, we ought to limit it. We ought to limit China's level. You can see the problem they are saying they are emitting 1/10 of the amount of us and they say they want to enjoy the good life. You guys reduce yours while we get to grow up and enjoy this standard of living. There is a very retractable issue on how to resolve it. China builds one coal plant a week for the next ten years. The proposed legislation is going to reduce the CO₂ emissions to a level that was reduced last year because of the recession. What does that mean? Here we are going to pass this law that divided the country that fought tooth and nail and then have a down turn in the economy reduce it to that level anyway. Mr. Harrington said he believes something is going to happen. It is going to have a lengthy phase-in period of maybe 10 to 15 years. It is hard when we are talking about dollars next year, dollars four years, dollars five years to quote that to

something that is going to happen maybe 15 years from now. FPUA owns coal plants and your exposure is not out of line though. The projected mix of coal in the year 2016, Progressive Energy has 29%, Tampa 52%, Seminole 61%, OUC 73%, Jacksonville 45%, FPL 6%, FMPA 28%, State of Florida 28%, and FPUA 32%. FPUA is higher than average, but higher by a very small amount which can be easily rectified. Looking at that list of nine entities, which CEO in Washington is pushing for climate change legislation, our friends at FPL with 6%. Likely market response, if it happens in the first place, it will increase the demand for natural gas substantially. That is what happens if you increase the demand for a limited resource, the price goes up. What is it going to do for the demand for coal? It is going to reduce the demand for coal. So all the inefficient high costs mines will shut down and the cost of coal will get reduced and a lot higher energy prices for everybody, if legislation should pass. That would increase incentives for higher penetration of renewable resources that some of them certainly do not emit CO₂. Mr. Harrington said he believes these forces pushed together so you will hear some numbers and the numbers are not that big and they are manageable. Emission is easily reduced by economic dispatch. Every hour of that 8,760 hours a year, some computer sits up there and says okay I can do FPUA's coal, I can do the nuclear, how do I satisfy the load and it picks the cheapest combination to satisfy the load. As soon as you increase the price of coal, the gas plants go up above it so the coal plant does not run as much. Everybody will do this, but the emissions will decline just because the price has gone up. They will argue about the price going up because of this emission allowance you will have to buy to emit CO₂. The fact that you own the coal plants, it means you will re-dispatch, you will utilize it in a different manner and reduce your emissions. It does not mean you will shut the plant down. The plant that FPUA owns, the Stanton Plant, it was designed to be retrofitted with gas or supplemental fuel with gas. It is a very minor project; there is floor space in there to run the gas pipes to burn coal and gas together. They could put a punitive penalty on it, and then you just switch the plant to gas. In conclusion to climate change, Mr. Harrington does not believe that climate change considerations are a significant factor in evaluating CROD.

Mr. Perri asked what the chances are after entering into discussion with FMPA regarding a more equitable terms. Is that just a pipe dream or is that something that could actually happen? He said he goes to those meetings every month and he sees zero chance of that happening and believes we have to be prepared for the worse scenario and stop looking for the pie in the sky. Mr. Perri asked Mr. Richards if there is any chance at all.

Mr. Richards said in his opinion, FPUA might be able to appeal to the All Requirements Project, Executive Committee to their sense of fairness and reason in not applying the plus 15% adjustment. That may be based on the fact that it is punitive and would be a good reason. How the committee would finally vote on it might be an area that FPUA could make an appeal. We do not have a lot of leverage.

Mr. Perri asked if that would take a 100% vote.

Mr. Richards said on whether to take the 15% would just take a majority vote. That would not mean a change in the contract; it would be how they would apply it to us.

Mr. Harrington said Mr. Richards's popularity there as past chairman and now current chairman could bring the vote in FPUA's favor.

Mr. Drummond asked Mr. Thiess what our next step would be.

Mr. Thiess said that in the agenda item, Mr. Richards outlined several steps we need to take and in Mr. Harrington's report there were some suggestions. Mr. Richards summarized those and added a few things. We need to go down that list in the agenda item and pursue every one of those suggestions because this is a big decision that affects this utility and our customers for a long time. We need to have every piece of evidence on the table we can look at before we make a decision. Mr. Thiess said we would have until December, but really if we are going to do it with this Board, we have until the end of September if we are not going to do it with a new Board member. He said we have worked very hard at pulling all this information together and could have this Board come to a tentative decision by the end of September. We would make that decision with all the information that is possibly available in front of us, including negotiations with FMPA and some tentative firmness in that plus or minus 15%, so in going forward, we know what we will be facing.

Mr. Drummond said everyone has a copy of Mr. Richards' memo and he agrees it is very detailed. Are there specific questions we need to address or are we prepared to suggest that we just want to follow staff's recommendation in moving forward with those items?

Mr. Summerhays said all we have to do today is accept this report. We do not have to take any further action. He said he believes we need a long analysis by staff before we are even capable of discussing it.

Mr. Thiess said that given no further direction from the Board other than accepting the report, staff is going to assume we are pursuing everything in this memorandum.

Mr. Drummond said he wanted to be certain that above and beyond just accepting it, we give direction to staff so that it does not get pushed aside and we find ourselves late in the year.

Mrs. Cully said she agrees with Mr. Summerhays and that we really need to look at this thoroughly and ask staff to go through it.

Mr. Summerhays said the way he sees this is our only choice other than just remaining an All Requirements member is CROD. It is either one or the other so we need staff to analyze and think about and pursue all the possible deep holes we might fall into by going after CROD, and make a decision based on that. The other things are not really a choice so either we remain a

member as we currently are or we pursue CROD. Mr. Summerhays said he feels completely comfortable with just accepting the report.

Mr. Summerhays made a motion to accept the report and Mr. Perri seconded the motion.

Mr. Drummond said he is certainly supportive of accepting the report. He just wants to be sure we are giving clear indication. He said that Mr. Summerhays said he wants staff to look into it and he would be very confident in suggesting staff would get a report back to the Board that outlines the steps staff has taken to address these issues that are outlined in this memo.

Mrs. Cully asked if we could consider a workshop where we could go through this.

Mr. Perri said he thinks that would be appropriate.

Mayor Benton said once staff has the information, a workshop would be appropriate. He said he would like to do, since he has met with folks from FPL, is to have them take a look at this information and see what kind of analysis they could come up with. He believes it is a pretty good idea unless someone can change his mind. What he sees is it unties the hands of the people that sit here in the future. It is something we have to look very closely at and we have plenty of time to do it, but he would like to hear from FMPA and FPL also.

Mr. Perri asked if Mr. Summerhays wanted to include that in his motion.

Mr. Summerhays said that is something that can be done. All we are doing is accepting the report.

Mr. Perri said the Chairman says it is not clear.

Mr. Drummond said at this point we have a motion on the floor for accepting the report and we will anticipate some report back from staff indicating that they are prepared to move forward with some sort of workshop.

The roll was called and the motion was unanimously approved to accept WHH Enterprises, Inc.'s report, "Analysis of All Requirements Project Exit Alternative".

Nina Hurtubise, Director of Finance presented the monthly status report of the power cost adjustment for the month of December 2010. She said the amount FMPA has billed to FPUA for the month of December was quite substantially more than in prior months. The balance of our over recovery from our customers dropped \$1,243,967 in December. There are two reasons for that. First the increase in the unit price, the increase went to \$96.77 per 1,000 kWh. That was an increase of \$36.76 over November. In the month of November, a great deal of cash was

pushed back to the Members, which was basically nil in the month of December. More importantly, why we are seeing the under recovery for the month of December is the amount that was charged, \$96.77, is \$11.25 more than the \$85.52 we charged to the customers. Very simply put, we did not bring in as much as we had to pay out. There is another situation that occurs naturally in our accounting system. December was a historically cold month so our customers used a lot of electricity and we had to purchase that electricity. Our customers do not get billed for that electricity until after they have used it anywhere from a couple of days to an entire month after they have used it. The customers began to see their large bill at the end of December. Although we are going to be recovering some of that cost, it is a timing situation where we will see a higher recovery in January because of the high purchases in December. It happens in reverse as consumption declines. Another situation, there is a page in your packet that shows FMPA's actual results versus what their projections have been over time. What this particular table shows for the month of December very consistently the actual billings exceeded the amounts projected since February 2010 all the way across the board. Ms. Hurtubise said she would like to contribute that to the cold spell. They did not predict there would be such a high price in the month of December. She said as indicated in last month's presentation, FMPA's projected costs are expected to rise and the Board has been provided with some complex spreadsheets from PRMG, our rate consultant, showing that based on FMPA's projections, the price we expect to pay FMPA for 2011 is about \$83 per kWh on average. These are comparable to the numbers we just heard a few minutes ago and it rises to about \$93 in 2012. These are FMPA's projections. In anticipation of those higher prices, Ms. Hurtubise is recommending a \$2 increase in the PCA so that when we get to October 1st our customers do not have to be impacted any more than they need to be. She said a little bit more now is going to be a lot less later. If the Board does not want to make that \$2 increase, the projections indicate that an increase in the PCA on October 1, 2011 would have to be to \$46.75. That is quite a dramatic increase that she would not want to impose upon our customers. Next month, unless their projections improve, we may come back with another recommended increase of \$2 for that very same reason. Right now Ms. Hurtubise said she is requesting approval of a \$2 increase of the power cost adjustment starting February 1 from \$36 to \$38 for 1,000 kWh.

Mr. Drummond said he is looking at the projections. Based on the recommended increase starting in February that would project out a \$2.5 million over collection and then going forward all the way through to September, we would always be somewhere in the over collection ending at \$2.4 million.

Ms. Hurtubise said that is through September 2011.

Mr. Drummond said that goes on into 2012 and the only time we start looking at an under collection would be in June 2012.

Ms. Hurtubise said that is also correct.

Mr. Drummond said we would still come back at the end of September 2012 with the \$230,000 under collection.

Ms. Hurtubise said yes we would still be under collected.

Mr. Drummond asked if that was based on us making those adjustments next month.

Ms. Hurtubise said that is also 21 months from now so please keep in mind that these are projections and are subject to change.

Mr. Drummond said we have been on a whirl wind with FMPA over the last few years and he is sure everyone can remember going to \$4 million under collection. In this particular instance, he sees where we are attempting to make sure we do not ever find ourselves in a situation where we are under collected based on these projections.

Ms. Hurtubise said the goal is to come as close to zero at September 30 over/under. It is not that we are trying to eliminate an under collection because we would actually be looking at an under collection of about \$1 million at the end of June 2012, the end of July 2012, and the end of August 2012. So there is some under collection.

Mr. Drummond said he is looking at the projection based on the recommended increases we would be at \$2.4 million over collected in September.

Ms. Hurtubise said that is correct, but that is at a \$42 PCA starting October 2011 that we would have to raise it. She said what we are discussing here is a \$2 increase in February to \$38.00 and another \$2 increase in March to \$40. So it would be a \$40 PCA through September and then another increase to \$42 to hold steady through the entire FY 2012.

Mr. Summerhays said it is not just the \$2.

Ms. Hurtubise said Mr. Drummond is correct that it is contradictory to what she is saying it being zero. It will be zero at the end of the projection period.

Mr. Drummond said that would be September 2012.

Ms. Hurtubise said last month was the first month we had seen these projections through 2012. They were rather shocking, they obviously are not as positive as they were through 2011. Even in a month they got a little bit worse.

Mr. Drummond said it appears that the recommendation would suggest we are most comfortable when our balance is always an over collection status for us and he is not comfortable going in that direction. He thinks we can bear some of the brunt as we have in the

past where we knew going in we were going to be under collected. In this scenario, it will be June of 2012 before we go into an under collection status.

Mr. Summerhays said let me see if he understands this. The chart displayed is with a \$6 increase, \$2, \$2, and then \$2.

Ms. Hurtubise said that is correct, over time.

Mr. Summerhays said so this is not the \$2 we are talking about, this is \$6.

Mr. Drummond said he agrees, but we can go to alternative one where we are not moving at all and it will still leave us in an over collection by September of this year.

Mr. Summerhays said you cannot plan that close. These are big numbers. He asked Mr. Drummond if he remembers what happened last time we did this and we dug a \$4 million hole.

Mr. Drummond said he understands that, but asked if Mr. Summerhays is suggesting he needs to look at the projections of the one with the increase, but not look at the one not with the increase. He said he wants to be consistent throughout. If he is looking at an over collection on the one with the increase and an over collection without an increase, he thinks he should look at them equally. Mr. Drummond said he, for one and he is just one opinion, is comfortable with looking in terms to not be the first in the All Requirements to make the increases and then typically as we found ourselves being the last to make the decreases. We just got the \$4 off and he is not suggesting that our consultant is incorrect, but even if he is correct, we are at least able to make it through this year to September, with their anticipation of being at an over collection or no worse than at zero in September. Mr. Drummond said he is not anxious to start off by making sure we are comfortable and suggesting to our rate payers that they immediately go back to an increase.

Mr. Summerhays said he would suggest that we do the \$2 and then look next month and the month after and see how we are performing. He said when this thing was increased, we did the big drop and it was against the advice of staff. You might recall that he said he hoped it did not come back and bite us. Well it has. Denying its existence does not solve a thing except dig us into a deeper hole. This is about making business decisions and not emotional political decisions.

Mr. Drummond said he does not think we are dealing with politics here. He is looking at numbers and does not see where we are going to find ourselves in a posture that is unhealthy financially. It suggests we are going to get close to zero, which would be an equal status situation. These are not our dollars; these are our customer's dollars and as we love to tell them always that one way or the other, they are going to go back to them. Mr. Drummond said

he is only looking at the numbers, but he will suggest that the reality of it is, our customers have dealt with the high utility costs and where we can share the burden, we should.

Mr. Summerhays said we could be in the position that if we raise the \$2 now of being able to take it back in the summer when their consumption goes way up. If we do not, we are virtually guaranteed we will have to have a bigger increase.

Mrs. Cully said in the summer when the rate payers are going to have to pay more money no matter what, they will have to then increase it. It would not be the right thing. We need to look at it as it really is and \$2, even though it is a horrible thing and we just took the \$4 decrease, which we probably should not have done at the time, but we did. We are now faced with going back up again. Mrs. Cully said she would rather do it \$2 at a time than be doing it \$6 in the middle of summer.

Mr. Drummond said the projection would be that we would not look at an increase during the summer months. The next one would be in October.

Mr. Summerhays said the next one would be in the next month.

Mr. Drummond said after the March one, the next one is projected to be in October.

Mr. Summerhays said at that point we have completely taken back the last increase.

Mr. Drummond said we have taken back the last and then some because then we are going to \$42.

Mrs. Cully said we do not know what is going to happen between now and October.

Mr. Drummond said we certainly do not.

Mr. Summerhays said it is prudent based on that to make a small increase and continue to look at it every month and redo our projections every month and see if we can give our customers a break when the consumption goes up. Right now it is relatively low consumption if it would quit getting cold. Based on that, Mr. Summerhays said he would like to make a motion that we increase by \$2 a month following staff's recommendation.

Mr. Drummond said he wanted to be clear and asked Mr. Summerhays if he is saying \$2 this month or \$2 a month following the \$2.

Mr. Summerhays said \$2 this month until we change it.

Mr. Summerhays made a motion and it was seconded by Mrs. Cully to approve the Power Cost Adjustment (PCA) for the period from February 1, 2011 through February 28, 2011 and until further notice, from \$36.00 to \$38.00 per 1,000 kWh.

Mr. Perri asked if there was any merit in leaving it like it is for one more month and see if we get out of this winter. He said he believes there are a couple more cold fronts coming and that might be a little bit closer to reality.

Ms. Hurtubise said it is the Board's prerogative to do so. She wants to make sure the Board understands that the other alternative, if we were to leave the PCA at \$36 through the end of September, based on projections would mean we would have to raise the PCA on October 1 to \$46.75. That would be a \$10.75 increase. She said we would prefer to impact the customers \$2 at a time than all at once.

Mr. Perri said he agrees with that. He just wanted to hold off for another month personally.

Mr. Drummond said he maintains that we have been much higher than \$46 so it is not as though we are going into uncharted territory. At the end of day, he would not like to be the leading edge of rate increases.

Mr. Thiess said as far as the staff's strategy on bringing these power cost adjustment increases or decreases to the Board, we have had a couple of sessions here on what strategy does the Board want. He believes what we left here with is that we had one strategy where we kept them higher in the winter and the rate would drop in the summer to try and balance out the bills over the year. The other strategy was just flat line the rate and let the bills go with the consumption. Mr. Thiess said what we left here with from those meetings was to keep the rate relatively constant and let the bills go where they may with consumption. The two scenarios you see, the staff recommended scenario shows some little increase looking ahead 21 months to see what is the sustainable PCA that will get us through the long horizon and it looks like it is \$42 if the rate forecasts are correct. That is the recommended scenario because it involves the least fluctuation in rates. We bump it a little now and if we have to we will bump it again in \$2 increments and then we go through next year at \$42. The alternative one to sit on it at \$36 is artificially low this year and if the rates come in, then we have a big increase of almost \$11 on October 1. That is the difference between the two scenarios. If we do the recommended scenario and the forecasts start peeling back off and going down, then we would come back with a decrease as soon as it looked good on the projections.

Mr. Drummond said he understands it. At the end of the day for the balance of 2011, it is suggested that this utility wants to be sure it is over collected at a very healthy amount, and he is of the opinion that we should be sharing with our customers not just placing the burden on them.

January 18, 2011

Page 19

Those voting in favor of the motion were Mrs. Cully, Mr. Summerhays, and Mayor Benton. Those opposed were Mr. Perri and Mr. Drummond. The motion passed.

Mayor Benton said he would have a little heart ache if next month the numbers continue to change for \$2 more. He said he felt since it is coming into another cold month, he knew we said we would adjust the numbers as needed and that is what we are doing. That is the cost of doing business with FMPA.

There being no further business, the meeting was adjourned.

ATTEST:

SECRETARY

CHAIRMAN