

MINUTES OF A REGULAR MEETING OF THE FORT PIERCE UTILITIES AUTHORITY, TUESDAY, MAY 17, 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 Anne Satterlee, Acting Ex-Officio Member/City Manager.

Others present: William G. Thiess, Director of Utilities; Rupert N. Koblegard, III, FPUA Attorney; Nina Hurtubise, Director of Finance; Thomas W. Richards, Director of Electric and Gas Systems; Eve Walker, Director of Shared Services; and Levette Dixon, Communications Manager

The meeting was called to order by Chairman Drummond.

Invocation by Dr. Ken Brown of Hope for Families.

The *Pledge of Allegiance* was recited.

The roll was called and a quorum declared.

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A motion was made by Mr. Summerhays, seconded by Mrs. Cully, and unanimously carried to approve the items listed on the Consent Agenda:

1. Approval of the Minutes of the Regular Meeting of May 3, 2011.
2. Approval of \$48,000 for underground electric cable and overhead electric wire to be purchased from American Wire Group, as needed for inventory stock for one year beginning June 1, 2011 through June 1, 2012.
3. RFP No. 6036 – Janitorial Services - Approval to award a contract with the top ranked firm, Mr. B's Cleaning Service, Fort Pierce, FL in the amount not to exceed \$66,312.

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A note was received from The Mustard Seed thanking FPUA customers for the amount of \$338.17 contributed through Project Care.

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Mr. Thiess said the Board has both FMPA Contract Rate of Delivery (CROD) reports in their packets, the FMPA analysis of the WHH report and their independent analysis of the CROD option that will be presented today.

Nick Guarriello, General Manager and CEO for FMPA, thanked the Board for allowing FMPA to help in this process as FPUA's power supplier for the All Requirements Project. He said Tom Reedy, Assistant General Manager of Power Resources for FMPA, will make the presentation. Mr. Guarriello said he understands that FPUA asked WHH Consultants to do a preliminary analysis and then requested FMPA staff to review that analysis. This presentation will show the pros and cons and some of the things FMPA saw. They were not able to rerun all of WHH's

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models because they are proprietary. As a second report, FMPA did an analysis with several sensitivity analyses. Mr. Reedy will explain what CROD is and what FPUA is doing if they make this decision. Mr. Guarriello said Mr. Reedy will go through it slowly because it is rather complicated and there are a lot of unknowns out there. They can make certain assumptions and it is a tough time to be making a decision like this with all the unknowns out there like the energy future, what Congress or the State are going to do, and greenhouse gases. He understands that FPUA has brought in another consultant that will review all of this and give their opinion and this is a wise thing to do. This is a long term decision. It is not a decision for the next two years; it is a long term decision.

Tom Reedy, Assistant General Manager of Power Resources for FMPA, introduced Jason Wolf who works on his staff and said Mr. Wolf did the grunt work on the report. He said if the questions get too tough he will turn around and ask Mr. Wolf to respond. Mr. Reedy said the Board could hold questions until the end or he would be happy to answer any questions as they come up. He will spend a few minutes explaining what they mean by CROD, then a few minutes discussing FMPA's review of the WHH report, and finally get into their independent analysis. He believes under certain assumptions there is a benefit to FPUA in issuing the CROD and taking this action. In that respect, they agree with the WHH report under certain assumptions, they do see benefits. However, where they do disagree is there are some risks out there that can make it not such a great decision. His desire today and in the future is that FPUA makes an informed decision. If FPUA sees the risks and evaluates them and decides it is a risk they are willing to take, then FMPA is 100% behind FPUA. It is FPUA's decision and not FMPA's. They are here to support FPUA's decision, which is their bottom line. Mr. Reedy said CROD is a simple concept, but it is a little hard to implement and FMPA has not implemented it in the history of the agency. They have had one city enter a CROD notice, Vero Beach, but in the implementation part for them, their CROD amount was zero. The concept of CROD is that a city fixes its rate from the All Requirements Project (ARP) and it converts over. Right now FPUA is a full requirements member, where FMPA plans for the load growth and adds generation. Under CROD, which means Contract Rate of Delivery, that rate is fixed and from there forward FPUA would take care of its own load growth. The amount that FMPA provides to FPUA would remain fixed as long as they remain in the Project. That is the concept, which is the easy part. Operationally, that amount and using an example number of 60 megawatts, if CROD is calculated to be 60 megawatts, FMPA would only serve those 60 megawatts one hour during the year, which would be the peak hour. The rest of the hours during the year would be prorated down to follow FPUA's load shape up and down on an hour by hour basis. Mr. Reedy said they are assuming the first year CROD could be effective for Fort Pierce is 2017. The way CROD is determined by contract is for the December through November the year prior to 2017. December 2015 through November 2016, FMPA would look at FPUA's actual peak load every month and whatever that maximum number is during that 12-month period would be the CROD amount. That would be taken either up or down 15% at the discretion of the Executive Committee of FMPA and then they would subtract off FPUA's resources that are owned, the Stanton and St. Lucie resources. Mr. Reedy said that is the mechanism on how it will actually be determined. It can be forecasted now and it has been forecasted in their report anywhere from 40 to 60 megawatts depending on the plus or minus 15%. The other operational aspect to consider is it is delivered to FPUA on a day ahead schedule basis, which means for the next day,

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FMPA staff would forecast FPUA's load on an hour by hour basis. They would then schedule that energy to FPUA each hour on a set schedule and it would not vary. The weather is being forecasted a day ahead so if it is thought to be hot tomorrow and that is the load shape, FMPA would forecast that energy on an hour by hour basis. The schedule would be set and it would be delivered to FPUA regardless of what actually happened during the day. The point is, under CROD, FPUA is responsible on an hour by hour basis of taking care of the difference of what was scheduled and what actually happens.

Mrs. Cully asked how FMPA determines whether it will be less 15% or more by 15%.

Mr. Reddy said the Contract has one sentence that says we determine this amount of demand over the 12-month period like described and then that can be raised or lowered by 15% at FMPA's sole discretion for reserves. That is what the Contract says.

Mrs. Cully asked why FMPA would consider 15% less.

Mr. Reddy said they were discussing that earlier and it is probably a rare occurrence, but a situation could occur where if the Project needed to add capacity, and by taking Fort Pierce or any member that was issuing CROD, by moving that down 15% it might buy us a year or maybe two years delay in the in-service date of the unit. There could be some benefit. It would be an economic calculation and staff would do an analysis of what would be the benefits, would it delay any additions, and then FMPA would make a recommendation to the Project of what would look best for the Project.

Mrs. Cully said so what you are saying is FPUA would not know up to the very last whether we were going to have 15% above or below.

Mr. Reddy said that is correct according to the Contract. He said FPUA could ask the desires of Executive Committee at FMPA at any time and it is assumed if it is asked, a vote would be taken. The way the Contract is written, FPUA does not know what the actual CROD amount is going to be until November 2016 in the case of where it would be effective in 2017. FMPA has to wait until the actuals come in. Mr. Reddy said he believes FPUA is a summer peaking utility so that by the time we get past September, FMPA would have a pretty good idea of what the peak load for FPUA would be. He said all they are looking for is the maximum amount during that 12-month period. FPUA truly would not know until the end of November 2016. If in any hour FMPA schedules the energy to FPUA after 2017, and the load is higher than what is forecasted, FPUA would have to make up the difference. It could be on a short notice and the same if it is lower than forecast, FPUA would have to market the excess on short notice. This really is the most problematic for FPUA in the early years. Some other things to consider in the operational world is that currently in operating a power system there is a balancing area or authority and FPUA would have to balance the load and the generation. Right now FMPA does that for Fort Pierce under the Florida Municipal Power Pool. Under CROD, since you can only be in one balancing area or authority and FMPA is only scheduling a fixed amount to FPUA, the Utilities Authority would have to get balancing area services and would have to have a discussion on how FPUA would supply their load growth, would it be bought or would it be

built, or do some combination of the two. FPUA would have to be a network transmission customer of FPL. None of these are insurmountable and he is not trying to put them up as stumbling blocks, but these are things that FPUA has to consider as they consider whether or not to do CROD. Mr. Reedy said the graph shown on the screen shows the current forecast of FPUA's load in 2017, under the plus 15% adjustment, between 2017 out to 2023 for those first few years, there is a good chance that most every hour, FPUA would have to find some mechanism to get rid of excess energy. Under the ARP Contract and under the CROD arrangement with the plus 15%, there is a good likelihood that a good part of the day, FPUA would be getting delivered more energy than the customers are taking. It is not insurmountable, just something FPUA would have to deal with and work through.

Mr. Perri asked if the load balancer would do that for FPUA.

Mr. Reedy said most likely and that would be one of the things FPUA would have to discuss with the balancing authority or if FPUA did it themselves. He was talking with FPUA's Director of Electric Systems, Tom Richards, and there are maybe other ways FPUA could do it with some off system sales. It is something FPUA has to take into consideration, but it could be dumped to the market. The value of that energy varies from hour to hour during peak times. In the summer afternoons it might be worth \$100 to \$150 per megawatt hour and that is a pretty good price. At 2:00 a.m. it might be worth \$20 per megawatt hour and it is just a market driven type of number.

Mr. Perri asked if there is a possibility there would be no market for it and FPUA would not get anything for it.

Mr. Reedy said that is correct at times it is a possibility if FPUA was transacting it on an hour by hour basis and did not make some type of long term arrangement for somebody to take a portion of energy. He said if FPUA was relying on the spot market, there could possibly be times where there was not a spot market available. FPUA has to give five years notice to start, so the earliest given where we are today, the earliest CROD could start is January 1, 2017. The decision about the up or down is not staff's, it is the Executive Committee's of FMPA. Mr. Reedy said he is sure he would be asked to make a recommendation, but it is not his decision. This is the brief introduction of CROD and Mr. Reedy asked if the Board had any questions of what it means or what it looks like before he moves on.

Mr. Reedy said FMPA was asked to review the WHH report and they looked at it as a screening analysis. He said a screening analysis is one that is done fairly quickly, uses simplifying assumptions, uses existing data and what you have, and the primary purpose of that screening analysis is to say, is there something here worth doing some more work on. The WHH report said there is something here and it was worth some further review and FPUA is doing that further review. Mr. Reedy said they did indicate some concerns with the report and it really comes down to FMPA thinks the reported savings is probably not as large as it was presented in the report. He said they had four primary areas of concern in their report and these are in order of magnitude or of importance in his mind. FMPA does marginal analysis, in fact, what they did in their report is marginal analysis. What is the value of buying a 50 megawatt

purchase from another utility? FMPA runs a production cost model, simulates the operation of the generators and tells them the cost to run the generators. They run a base case that has their "business as usual" not buying the 50 megawatt purchase and then the only change that is made is they will add in the 50 megawatt purchase, run the model again and subtract the two for the total costs of operation. In that way, they do not care what the escalation rate is. If the escalation rate of cost in each model is 2%, they cancel each other out. What they really are focusing in on is the change variable of that 50 megawatts. The concern FMPA has in the WHH report is for their base case, they picked up some of the analysis FMPA staff did on their integrated resource plan, had certain escalation assumptions, fuel cost assumptions, capital costs assumptions, and such as that and then for the FPUA takes CROD case, developed a different set of escalation assumptions, fuel costs assumptions, and capital assumptions, came up with those total costs and subtracted the two. Mr. Reedy said it does not really work that way and was their biggest concern with the numbers that they saw. He said the ultimate answer that there is something worth looking at here, FMPA does not argue with that. FPUA just needs to be careful of the absolute value of the numbers because of the differing escalation, capital costs, and the underlining assumptions. The other primary concern FMPA had with the WHH report was that this is all about sensitivity analysis. He wants to focus on and what is seen in FMPA's analysis is they focused on what could go wrong. Mr. Reedy believes FPUA needs to look at what things will make you change your mind. If the change in this particular variable or this particular item takes it from a plus to a minus, from a savings to a costs, that is an important sensitivity. The current wholesale energy market in Florida is a buyer's market and most utilities are a little bit long in capacity, there is a bit of a fire sale going on, just a caution for FPUA as they think of the future wholesale market, it is not always that way. There have been times in the recent few years where there was not anyone willing to sell at a reasonable price or sell at all. FMPA has had some instances where they did not get any responses from an RFP that was issued for a significant amount of power, 1500 megawatts, and did not get any responses. Right now it is a good market and FPUA can expect to get out and get a deal, but that is not always going to be the case. As Nick mentioned, this is a long term decision and FPUA needs to look past the cycles of the wholesale market. Mr. Reedy said they were not able to rerun the WHH model so they cannot tell the Board where they think the magnitude of the overstatement is, but they think it is tens of millions of dollars and that is the closest they can get. They went through each one and tried to qualitatively say this might be a few million to ten million dollars, this one might be a few hundred thousand dollars to a few million, but it is very qualitative. FMPA thinks there was an overstatement and asks FPUA to be careful on those absolute values. That completes his discussion of the WHH analysis.

Mr. Reedy said they ran a number of cases because they were asked to do a stand-alone type of analysis. He said they set up four fundamental cases, which was the business as usual - no action, CROD with no adjustment, CROD with plus 15%, and CROD with minus 15%. With each of these they looked at sensitivities of changes in the business environment. As FPUA moves forward with this decision, FMPA's models are completely available to FPUA and their consultant. All the data and input assumptions they will go through in detail and will rerun anything FPUA would like done. Everything is open and available to FPUA. FMPA assumed 2017 for the beginning of the CROD service and FPUA would take their Stanton resources back and they already have the St. Lucie resources. These are the numbers FMPA calculated for

CROD: with no adjustment at 63.9 megawatts, minus 15% is 48.8 megawatts and plus 15% is 79 megawatts. That is about a 30 megawatt swing between minus and plus 15%. FMPA assumed what they normally are using today in their generation planning or their model business as usual conditions. They used their most recent demand and energy forecast, fuel prices, tried to keep things as consistent as they could with their normal planning process. They did not include in the reference business scenario any greenhouse gas regulation impacts because they do not know what they are. They are thinking about them and are trying to gage the impacts, but they are not in the reference cases.

Mr. Drummond asked if their models suggested that any additional power FPUA might need, they would actually get it from FMPA's power pool.

Mr. Reedy said for pricing they used the energy price of the pool, which they call the CHP ("chip") price. It is the cost of the last unit that is used. They use that as a bogey or a proxy for the market. The reference for the normal business scenario, the range of a net present value over the total study period brought back to 2011 is from a cost of \$5.1 million to a savings to \$46.1 million dollars to FPUA. That is the plus 15% to minus 15% range. This is all about the sensitivity analysis, looking at the risk, our reference case. The risk FMPA thinks is important is what can go wrong, not what can go right. Mr. Reedy said the real reason FPUA would want to do CROD is there is a value in the Stanton resources that they are currently sharing with the All Requirements members. They are FPUA resources and FPUA would want to take them back and get 100% of that value, but when that is done, FPUA brings back 100% of the risk, whatever that might be that goes along with that resource. He said that is what they focused on and what could go wrong because that is really the driver. If the value goes away it is significantly reduced in that coal resource, that can drive FPUA savings down and maybe even take it to a cost. The value right now is the spread between the cost of coal energy and the cost of natural gas fired energy. Mr. Reedy said one of the risks FPUA would need to understand, as FMPA believes, is where is the spread going to be in the future. One of the cases FMPA ran was a reduced fuel price spread. FPUA staff requested an increase fuel price spread, which was provided to the Board today. Another risk is related to the spread, if there are greenhouse gas regulations and capital costs imposed on coal plants that will drive up the price of coal energy. It is another slice of the same concept or same problem, but FMPA did want to look at that specifically. They modeled some greenhouse regulations. Things that FMPA thinks are risks and they did not model are the Stanton I and II units could be retired. In 2017, Stanton Unit 1 can be retired unilaterally by the majority owner OUC without any input from anybody else and Stanton Unit II is 2026. Mr. Reedy said he is not suggesting that is a big risk, in fact, he does not believe there is any thought of retiring those units, but it is not known what Greenhouse legislation or other costs are coming down. He suggests FPUA think about it and investigate. Right now they identified the fact under the St. Lucie unit, there is a reliability exchange. They have exchanged one half of Unit II with Unit 1 so that if Unit II goes down, we are still getting 50% of the nuclear output. It is hoped to renegotiate and extend that because it is due to expire in 2017. If there are increased capital costs on the Stanton units, it is a risk or a cost that FPUA would be bearing if the CROD was done and took the resources. The risk of the capital increase would be 100% on FPUA.

Mr. Perri asked if those increased costs would be triggered by greenhouse gas or regular maintenance.

Mr. Reedy said they could be. The unknown would be greenhouse gas. They have a plan and are talking about installing a selective catalytic converter on Unit I and some improvements to the scrubbers to both Units I and II that was roughly \$100 million. They have not pulled the trigger on that, it is just identified and floating out there. FMPA encourages FPUA to look into that and see what their plans are. Mr. Reedy said what he is meaning here is mostly carbon tax and greenhouse tax type of driven capital. He said what FMPA believes are some large potential risks are the low fuel price spread and the greenhouse gas risk. FPUA asked for two additional scenarios, the high fuel price spread and the high/low growth and those are in the report. FMPA did not run the alternative business scenarios against the plus 15% or the minus 15% case. It was just run against the no adjustment case. If FPUA has a desire to see those others, FMPA would be happy to do it. The matrix starts growing and each one of these is about an 8-hour computer run. They are all set up and can be run at any time. The two fuel price spreads are the lower one and they kept the coal price the same and lowered the gas price. They brought the spread together and believe coal energy is probably as low as it is going to get. Mr. Reedy thinks it is going to go nowhere but up so he did not feel good about lowering the coal price. He brought the gas price down and actually in current conditions it is the lower spread. When the cases were run and he set up the 2010 and 2011 integrated resource plan, they were looking at the official forecast of fuels that had a higher spread. What they are seeing currently is more in line with this low spread. In the second scenario, they presented results of both and all fuel prices, coal and gas, were raised 15% and then another scenario where they were raised 35%. The reduced fuel price spread is seen at an additional cost at the present value of about \$18.5 million out of \$533 million. It is less than 10%, but it is a cost to FPUA. The fuel increase by 35% shows a \$36 million savings to FPUA, if that spread goes. The greenhouse gas scenario, FMPA has done a lot of analysis on this so he pulled forward their basic assumptions. There are some CO<sub>2</sub> allowance prices that RW Beck has developed for FMPA and that is what they use in a number of analyses and how the allocations are going to be doled out. They see it at a \$7 million net present value cost to FPUA and that is with CROD and no adjustment. The high/low growth they look at that as one of the sensitivities in the integrated resource plan and that is pulled out of the high/low growth forecast. One thing to note, if we assume high/low growth, that affects the calculation of CROD. They recalculated CROD and without adjustment it goes from 63.9 megawatts to 69 megawatts under the high/low growth scenario. It shows about a \$6.7 million savings over the net present value period. Mr. Reedy said they are saying the decision is not a good to great; it is from bad to good. The risk can take FPUA, if certain assumptions or certain things come to play out, this could be a bad decision to FPUA or it could be a good decision. FPUA has to look at the risks versus the rewards. FMPA hopes that this report will help FPUA to direct their consultant that is hired, to have them look at the right sensitivities to help FPUA decide what could go wrong, are you comfortable with that risk, what is the risk, and those types of things. FMPA's recommendation is that FPUA focus sensitivity on the spread between fuel prices, look at the impacts of the legislation and the greenhouse gas stuff, and that is where the decision is. Who knows what will happen with nuclear development and the fallout with Fukushima accident and we have to keep that in mind as well. Mr. Reedy said his final point is the conservative

approach FPUA should assume is 15% adjustment on CROD. He believes that is where the Executive Committee would most likely make their decision. The economic decision and he has looked at it and they would probably say the best thing for the Project is plus 15%. Whether the Executive Committee will go that route, he cannot say, but it is probably the right conservative approach.

Mr. Drummond said he is agreeing with Mr. Reedy that FPUA needs to be looking at plus 15% and does not know why the analysis with CROD is with no adjustment. He said this is for informational purposes and we are still waiting for one more analysis that is due in August.

Mr. Thiess said that is correct and that analysis will take all the information gathered to date and do an independent look at what this third outfit's impression of our CROD decision would be. We will be having a workshop and spending more time than a Board meeting on this because it is something the Board needs to spend several hours on with whatever experts we decide to have in the room to answer questions. Staff will be there also to review and go through four reports to try to come to a decision. There are multiple decisions; CROD, no CROD, 30-year notice, and deferring for a year to let some things settle out in the electric utility industry. There are a lot of different types of decisions this Board can make. We need to get the information together enough so the staff can get a grip on it and maybe give a recommendation to the Board, but it will rely a lot on where the assumptions are going to go.

Mr. Drummond said he agrees with Mr. Thiess and we are clearly going to have a workshop and maybe more than one.

Mr. Perri said he would suggest more than one workshop. He would suggest a workshop before the Board receives the final report and has one on the information we have right now.

Mr. Thiess said that can be done if the Board would like.

Mr. Perri said if anyone is interested in doing that, he would like to go through this in a little bit more detail before we get the final report.

Mrs. Cully said that nothing will happen for five years from now and asked what FMPA sees where natural gas and coal is going to be.

Mr. Reedy said he is more familiar with gas and believes with the tremendous finds that have been made recently in the shale gas, there has been some question on environmental aspects which will probably drive costs. Costs will probably not stay as low as they are now, but he believes they will stay more stable than they have in the past. There appears to be lots of supply, so the supply/demand equation looks like from the experts we are looking at a stable gas supply and stable prices for five years. Mr. Reedy said coal is a little tougher because there are a number of pressures on coal. The costs of coal transportation currently are going up rather rapidly and there is no coal produced in Florida so we have to import it by rail. Coal has fallen out of favor in a lot of the sectors so you might think that demand is down, but there is a lot of worldwide demand for coal. A lot of what is happening is instead of having carbon

emissions in the US, we are pushing them to other countries. Mr. Reedy said from what he has heard, the price of coal energy, which here is a price of coal, price of transportation, and the price of new equipment that has to be put on it and it is at its' bottom and it is likely to be increasing. Whether it will increase faster than natural gas, he does not know. He would answer it a different way. Mrs. Cully has been to a number of FMPA meetings and probably up to about two years ago, Mr. Reedy said he is a fervent believer that diversified fuel supply is needed. We need generation that is fueled on a diverse number of platforms of fuels. He was all for having some coal generation in the mix and he cannot say today that if someone walked up to him and offered a good deal too long term buy into some coal, he would have to think about that pretty hard. That is not something he would want to take to the Executive Committee and recommend. To him that should answer Mrs. Cully's question. Mr. Reedy said he does not like being so deep into natural gas where 60% - 70% natural gas dependent. He does not like that and it keeps him awake at night, but he does not think coal is the answer either because of the pressures he sees.

Mr. Drummond said it may be of value to have a workshop as Mr. Perri is requesting. He said one of the concerns he has is the WHH study had assumptions regarding the future pricing for FMPA and he does not see where FMPA looked to question or suggest that they predict a more downward trend for FMPA over time because of the new gas that is out there.

Mr. Reedy said they did have a bit of an issue with that. He said they do not project a rate far out into the future for FMPA because that gets into the discussion of the marginal analysis. They do not prepare a 10-year rate forecast and they have some dollar per megawatt hours floating out there in their planning process. Those are intended to be used in a marginal or differential type of analysis. He is not telling FPUA that their rate is going down. The cost of natural gas will go up in nominal terms, but he believes it will be relatively stable. Gas has been a very unstable commodity and in recent years they have seen when oil prices have shot up and gas prices have shot up. Earlier this year, when oil prices went up to over \$100 a barrel, gas prices stayed flat and that surprised a lot of people.

Mr. Drummond said he recognized that stable is a good thing, but we started down this road given the reality that the spread has continued to increase between us and some of the investor-owned utilities. He recognizes that as a result of some of the different mixers of fuel that is out there and asked if FMPA believes they will be successful in changing the mix to be more competitive.

Mr. Reedy said they are working on being more competitive and believes they will and are getting more competitive. He believes their wholesale rates are coming down and are getting competitive, but he does not think coal is the answer for him.

Mr. Drummond said we may just need to move forward with an additional workshop and the assumptions here suggested that was not going to be the case. He thinks that is why they were suggesting over time that FPUA would have the potential savings based on FMPA not being able to become more competitive.

Mr. Perri said he thinks it is important to note that FMPA is always looking to be more competitive. They are looking into the possibility of buying into some future nuclear plants if they go on line from what he sees at the meetings he attends in Orlando. They always have their feelers out.

Mr. Drummond said he will look to staff for any future meetings on this.

Mr. Thiess said his understanding is that the Board would like to do a workshop with the three reports we have now.

Mr. Drummond said he did not hear anyone say no.

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Nina Hurtubise, Finance Director, presented the status report on Electric Power Cost Adjustment (PCA) for April 2011. She said the PCA is a direct recovery of the power cost paid and FPUA does not profit through this adjustment. Any over or under recovery is recorded as a liability to or a receivable from the customer. We are not recommending any kind of a change in the PCA at this time. The projections that were presented a week ago demonstrate a small increase, but not enough to act on at this time. The cost of power purchased from FMPA for the month of April was billed to FPUA at a rate of \$88.52 for 1,000 kWh and that is for the St. Lucie nuclear as well as the All Requirements. Ms. Hurtubise said that is an increase of \$10.63 as compared to March. It was an increase, but it was an anticipated increase so it was not something we did not expect. She said the result for the month of April was an under recovery in the amount of \$751,000. The over recovery from the customer, which is the cumulative total, is approximately \$3 million at the end of April. April was the month we had the decrease of the PCA to \$34 for 1,000 kWh and that is part of the reason why the under recovery occurred. Also, the projections we have at this point looks like we will under collect and give back in the next four months about \$2 million. We have a \$3 million balance, but in the next four months based on projections are anticipating that about \$2 million will go back very quickly.

Mr. Summerhays said it is through the summer months which are when we want to give it back.

Ms. Hurtubise said that is correct and hopefully everyone will appreciate the PCA is a little bit lower than it would have been had we just passed along the cost at the time. We very much want to time the give-back at the right time. The projections we are basing our decisions on are based on what FMPA projects each month and the table demonstrates that the projections that have been made in the recent months have generally been higher than what we were actually billed. That is a conservative thing and a good thing they are coming in a little bit lower. At this point, we are comfortable with the projections FMPA is making, which in turn our rate consultant analyzes and provides to us in the form of projections. The dark line on the graph is what we have been paying for power costs for the 42 months we have been tracking this. The FMPA costs to us per megawatt hour are quite volatile, but the amount that we have been passing along to the customer is shown and we are trying to be as consistent as possible without giving anybody sticker shock. Our power costs for almost the exact time period are

pretty much at a historical low at \$34. For the future, what we are looking at on the graph is that the blue bars are our history of the over/under recovery. The blue line is our PCA and as shown the PCA has come down and we are currently over collected. In the time frame that we will be giving back, we will be dropping down to \$2 million at the end of September and it will go back up again. The problem is that the projections in 2012 are expected to be if we were to do a onetime jump, it would be \$42.75. Last month it was \$42 and that was the slight increase that we were talking about. Ms. Hurtubise said that could be a real sticker shock for our customers. She said also included in the Board packets is another alternative where we increase the PCA at a slightly slower rate with three increments of \$38, \$42, and then \$44. That would leave the end product at a high level, but it will be a gradual increase and these dates are pretty far out in the future. We do not really know what the numbers are going to be until we get there. Generally, we like the gradual approach better than making big jumps either up or down. There is no recommendation at this time for any kind of change, but as a result there will be a larger under collection. We have talked a lot about volatility and not knowing what the future will bring. Here we are looking only one year out and CROD is looking at many years out.

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Ms. Hurtubise presented the March 2011 Quarterly Financial Operating Results. She said this is six months through the year and we do have a year to date increase in Net Assets of \$4.4 million. There will be a big dip in that in April as a result of the distribution to the City. It is a \$1.5 million increase over where we were in 2010. We are better off financially this year than we were last year. It is an increase over the Capital Contributions brought in last year, but that is not saying much because we have not been bringing in much in the way of capital contributions. It used to be the whole story and it is hardly any more. Our cash position peaked out at the end of March and it took a large hit when we paid out the City Distribution in early April. Ms. Hurtubise said the Units Sold are pretty much the same as provided two weeks ago with regard to February's year to date results. There are increases in gas and water as compared to 2010 and there are decreases in electric and wastewater as compared to 2010. Electric is down 5.6%, but is essentially flat from 2009. Water is up 2.5% and up 7% from 2009. Wastewater is down 3% from 2010 and down 3.6% from 2009. Natural gas is up 2% and up 3.8% from 2009. The dollars associated with those sales, we are seeing a decrease in electric being it is down 15%. It does not look very good; however, \$4 million is PCA. We did not pay as much in PCA so we did not recover as much of it from the customer. When we pull out the \$4 million, we are really only down about 5%. Water is up 2%, wastewater up 2%, and natural gas, although it appears to be down, it is down 8% as displayed on the graph, but when we pull out the purchase gas adjustment, it is basically flat from 2010 to 2011. Our Operating Income showing a rolling 12 months for the past couple of years shows we have a debt service coverage ratio of 2.71, which is extremely healthy and well above the 1.25 requirement for our bond covenants Our year to date Operating Income is up \$1.1 million as a result of our depreciation being about \$712,000 less than it was in 2010; our salaries and wages are down \$194,000 as a result of unfilled positions as a result of attrition; our gross receipts tax because we are collecting less in electric and gas, we are paying less out in tax; and our maintenance contracts are down \$127,000. Our costs saving efforts are showing up in our financials. Ms. Hurtubise said this is an information only item and no action is required of the Board.

Mr. Summerhays suggested that on the chart presentation of gross receipts, every time we see it Ms. Hurtubise spends time explaining that it looks like it is up, but it is really down or it looks like it is down, but it is really up, why not show it as net. He said we account for it as the receipts as a liability anyway, so for the purpose of the chart, it would save her from having to explain it and it would make more sense. It is something to think about.

Ms. Hurtubise said that is fine and she hand writes it on her profit and loss and has to subtract that plus and minus. She will be happy to show it as net.

Mr. Summerhays said to get to the real number because the purchased power and purchase gas adjustments are not ours, so let's net them out to begin with.

Ms. Hurtubise said the electric power cost is such a huge portion of our budget that it throws all the other numbers out of whack when they are taken into consideration.

Mr. Drummond said now that he has gotten used to it this way, thank you.

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Mr. Thiess said he, Mr. Drummond, and Mr. Perri attended a County workshop today on utilities focused on the regionalization topic. He said they had to leave early to come to this meeting and does not believe they quite came to a consensus.

Mr. Drummond said they may have come to fruition after they walked out.

Mr. Thiess said there will be only one Board meeting in June and it will be June 7<sup>th</sup>. The June 21<sup>st</sup> meeting will be cancelled because some of the Board members will be at the APPA National Conference.

Mr. Summerhays said we have a similar conflict in July.

Mr. Thiess said we may have a conflict in July as well. We will bring that up at the June meeting. He said he wanted to clear the record; there have been some erroneous statements on the net metering. There was some made at the City Commission meeting last week that FPUA does not do net metering. Mr. Thiess said he wants it to be clear to our customers that we do net metering and it is set up, the agreements are in place, and we have five or six residential customers on net metering now. Most of them are very happy and very satisfied with it. There was one customer that was at a function Mr. Thiess went to a week ago Saturday going around showing his power bill for \$21 for the month, \$18 which was the solid waste billing. We do have some customers and they are coming in slowly. We are not contributing to that and are only paying the avoided costs, which was discussed in our strategic planning workshop. The reasoning behind that is the money we do have for conservation or renewables is limited to what we get through FMPA (\$60,000/year) and we are putting that money where we get the most bang for the buck. In prior years where we had the FPRA funding, which was a sizeable chunk of change, we worked with the City and put it into weatherization. The payback

on that is 2-3 years. It was a very quick payback, the reduction in bills versus the money spent was paid back in 2 or 3 years. Where we are going now is the rebate program for EnergyStar appliances and the numbers in the literature and what Mr. Thiess has seen is a 6 to 8 year payback for those expenditures for rebates. The solar on the other hand is a 40 or 50 year payback and is recognized across the industry. Yes it is green and we are doing it for customer, most of which are very happy with the program, but we are not subsidizing it because it is such a long payback. Our priorities are with more where our customer's needs are, which would be rebates and if we got more money it would be weatherization. Mr. Thiess said there is another outfit out near Indiantown now that is funding the weatherization and he has not seen any figures on how much is being spent in our service territory.

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Mayor Benton said he was taking a look at some information about the meeting the County was having today and he was looking at one of the options they listed and example 5, the last line says "or St. Lucie County Utilities absorbs FPUA". He said he did not know that was an option, but towards the end, they must have wanted to give people a laugh.

Mr. Drummond said you will not see an option that suggests that St. Lucie County absorb Port St. Lucie Utilities.

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Mr. Perri said he would like to thank FMPA and Tom Reedy for his presentation. He also would like to make note that the public may not know, but we did send some linemen up there to Alabama during the tornado.

Mr. Thiess said we had crews ready to go, but does not know if they were needed in the end. We offered assistance and in the last hour they said they had enough coverage.

Mr. Perri said he was under the impression that we did go, but at least we were ready. He said all these utilities throughout the country need to work together and pull together in time and need.

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Mr. Drummond asked the Mayor when the dress code would be changing for the Board meetings.

Mayor Benton said it starts Friday morning.

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There being no further business, the meeting was adjourned.

ATTEST:

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SECRETARY

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CHAIRMAN