

MINUTES OF FLORIDA POWER CORPORATION (FPC) WORKSHOP MEETING OF KISSIMMEE UTILITY AUTHORITY, HELD WEDNESDAY, APRIL 5, 1989, AT 6:00 P.M., ADMINISTRATIVE BUILDING, KISSIMMEE, FLORIDA.

Present at the meeting were Chairman Hord, Vice-Chairman Gant, Assistant Secretary Lowenstein, Director Jones, Mayor Van Meter, Attorney Brinson, General Manager Welsh, Recording Secretary Rundio. Secretary Bobroff was absent.

Also in attendance were Messrs. Pete Dagostino, Vice President, Eastern Division, Samuel F. Nixon, Jr., Supervisor, Rate Design & Administration, and John L. Scheidt, Staff Engineer, Systems Operations, all of Florida Power Corporation (FPC), St. Petersburg.

A. MEETING CALLED TO ORDER at 6:08 P.M. by Chairman Hord, who said Secretary Bobroff was not present. He stated this was a Special Workshop Meeting to review the Power Supply presentation by the FPC representatives.

1. FLORIDA POWER CORPORATION PRESENTATION ON POWER SUPPLY

Mr. James C. Welsh, General Manager, stated the Florida Power Corporation (FPC) representatives have a presentation on a Partial Requirements (PR) type contract and a new contract concept discussed with them earlier, basically a segmented type of Partial Requirements. He indicated that last week he and Director Bobroff attended a tour of the FPC Control Center at St. Petersburg, Florida. Since other Board members were unable to attend due to prior commitments, FPC has brought with them this evening a video on their Control Center.

Mr. Pete Dagostino, Vice President, Eastern Division, gave a brief introduction. He said FPC has well over a million customers now, is the second largest utility in Florida, and covers 20,000 sq.mi. Of importance, he said, was to express their philosophy and how they do business.

Three points included in Mr. Dagostino's opening statement were: 1) service, 2) reliability service, and 3) rate stability. From a service standpoint, he said, they look at their retail and wholesale business, the retail is easier to monitor and is looked at quarterly. They have a large resource base available to assist any customers in difficulties. They command a construction program of over \$250 million per year, which points to their size. In generation availability, their goal this year is to maintain at least 82%, including their nuclear power plant. Their customer opinion survey, he said, spoke very favorably to their reliability. They have over 6,000 MW of generation capacity. He said they have a good balance of coal, oil, nuclear and gas to take advantage of the oil situation when oil and coal prices are down. One of their corporate goals continues to be to provide the lowest rates in the State of Florida. The retail business is protected by the Public Service Commission; the wholesale service is also protected from a rate standpoint through the Federal Energy Regulation Commission (FERC) in providing customers protection.

Sam Nixon, Jr., Supervisor, Rate Design & Administration, handed the Board members booklets on their proposal along with an Annual Report. He said they have worked with Kissimmee Utility Authority (KUA) since early 1987 in helping to evaluate with Black & Veatch (B&V) alternatives available from FPC to KUA. He stated that KUA has purchased 31 MW from OUC and is now considering 10 MW. Mr. Nixon highlighted FPC's offer, a wholesale partner power concept. They have low embedded costs which their customers are sharing and paying for. It's a 10-year commitment, with five-year notice of cancellation by either party. This is to allow a customer time to replace such a resource.

Chairman Hord inquired what the rates would be in the future. Mr. Nixon replied they can provide a forecast, but that before they can change their rate, they must go to the FERC and have it accepted by them.

Mr. Welsh asked for a clarification of the contract, that at the end of the first five-year period and then on out, the contract would always automatically extend five years. Mr. Nixon said that was correct and agreed with Director Gant that this could last 30 years or more. Discussion continued on extensions and the possibility of cancellation by FPC. Mr. Nixon did not know of any supplier giving termination and then that proceeding going before the FERC. He said even though we're talking Partial Requirements, they are obligated under the terms and conditions of the contract to build and construct capacity for customers.

Mr. Nixon explained that Partial Requirements comes in two forms: 1) FMPA Approach, covering the average embedded system cost and monthly average system fuel cost; and 2) SECI Approach (termed "Seminole") covering the average embedded system cost by unit type and monthly average system fuel cost by unit type. Both PR's are dispatchable; both have contract demands; both have flexibility in the amount of purchase.

Sam Nixon said FPC is willing, in the interest of resolving KUA's long-term options, to extend the current 25 MW Schedule D purchase through 1989. Mr. Nixon discussed an example of purchase flexibility for a five-year period, showing the initial contract demand, and the demands that allowed maximum increase and decrease from year-to-year.

Discussion followed on inactive units brought back into service and charging \$73/MW day. Mr. Welsh explained the increase in demand and the mill increases.

Further discussion continued on stratifying wherein we might need only base and peaking power, excluding the intermediate range. Mr. Nixon said they might give us some apportionment between the three categories, allowing us considerable flexibility.

Mr. John Scheidt, Staff Engineer of Systems Operations, expanded on flexibility, and touched on new concepts still on the drawing board. He said the new services are called "Dispatching Services." Unit Commitment Services covers a situation where you have a large variety of energy resources and need to have them scheduled, they provide that scheduling service through their extensive computer program. They would model our system, price out the alternative sources of generation that KUA has, and then would provide us with optimal scheduling to give us minimal cost for tomorrow's anticipated load requirements. "Economic Dispatch Services" is the day-to-day, moment-to-moment changes of the Unit Commitment schedule of the previous day. They also provide other services, not that we need them, he said, but that they are available through them.

Mr. Scheidt explained, from the handout proposal, the Service Schedule H (Reserve Interchange Service) and a Letter of Commitment for such Service, identifying the amount, duration and pricing associated with KUA's purchase of Reserve Interchange Service from FPC. Also included is Service Schedule I (Regulating Interchange Service) and a Letter of Commitment for such Service for a one-year period. Since neither KUA nor FPC has extensive experience with regulating service, this would be considered experimental. The prices for these services are spelled out in the booklet.

Mr. Scheidt said that regulation is nothing more than the adjustment of your generation to track the changes in load on an instantaneous basis. They are working with another utility on this program.

Director Lowenstein asked if we had a shortage problem with contracts through other utilities. Mr. Harper replied we were called and were told they could not supply our power. He was referring to Orlando Utilities Commission (OUC) in 1983 or so.

Director Van Meter, referring to FPC's dispatching, asked that if they had a number of wholesale customers, what would their incentive be for having lower costs when they had available power? They could conceivably control their prices. Mr. Harper said they could possibly have a market. Mr. Welsh explained how the broker deals work.

Lengthy discussion continued on regulating.

At the Board's request, Mr. Welsh graphically explained the regulating during swings of peaks and lows.

Chairman Hord inquired whether FPC offered us their best and final offer. Mr. Welsh said they haven't made their offer; we're in negotiations at this time, so at the next meeting we'll have to make assumptions, rather than a decision. Mr. Welsh said we have to decide whether there is enough economies with the FMPPA-IDO project via opportunities and savings.

Chairman Hord said what we're dealing with isn't economics. What it boils down to is a business philosophy, do you want a co-op to make our long-term decisions, of which we have one seat of an unknown number of seats, or do you want to make your decision in this room with people such as those (FPC) who were here tonight?

Chairman Hord stressed we're to the point we have to make a plain-talk decision. We're down to "fish or cut bait."

Director Lowenstein asked, in relation to FMPPA, do we have to forecast the amount of power we anticipate using? Mr. Welsh indicated we have to provide them with our best forecast, but it has no contractual bearing. They're required to meet our loads.

Mr. Welsh asked the Board members to peruse a letter on the All-Requirements Project which he received from Mr. Dean G. Shaw, Director of Electric Utility, City of Ocala, Florida. This letter was sent in response to Mr. Welsh's request, following Director Lowenstein's request for a financial statement from the City of Ocala, at the Workshop Meeting of March 30th. The Board members felt it would give them added insight into their decision-making.

Mayor Van Meter left the meeting at 8:10 P.M.

Mr. Welsh indicated the Board does not have an easy decision. He said if there is no competition, will we be stuck again. Chairman Hord said there will always be capacity available. Florida will always continue to grow; we're not a stagnant state by any means. The people who can do it, TECO, FPC, Gainesville, Tallahassee and OUC will continue to add bigger units. Mr. Welsh added that generally there are swings in over-capacity and under-capacity, and power shortages. We might have to buy gas turbines and put them in, increasing our rates considerably.

Chairman Hord inquired of Mr. Welsh whether FMPPA can write us an iron-clad proposal guaranteeing us whatever power we need from now to eternity? Mr. Welsh said it would guarantee that they will serve, but there's no iron-clad guarantee anywhere. Chairman Hord said Mr. Calvin Henze (FMPPA) can try to assure us, but if FPC's source dries up, they are not a generator and they would be in the same predicament as we.

Questions by the Board were answered by Mr. Scheidt. Director Gant asked if there's an additional cost to FPC to provide regulation. Mr. Scheidt said those costs are a combination of telemetry equipment costs, manpower costs and others.

Director Lowenstein said, looking at 20%, higher or lower, to a maximum if need be, could we go beyond the maximum, and would there be an additional adjustment? Mr. Dagostino said yes. That in the more detailed contract of the FMPPA, they can make any adjustments that both parties agree to make. If KUA's needs are greater in it's growth, etc., and if FPC has it available to sell, it would most likely sell it to us, or others. If it's not available, they would help us make other arrangements, he said. FPC feels they can react easier on the downside than on the upside, that with seven years' notice they will let us take off more than 20%. Chairman Hord asked if they would let us add more than 20% with seven years' notice. Mr. Scheidt said it's a possibility and can be discussed; it cannot be unlimited.

Discussion continued on base load impact and rate increases and decreases. Mr. Nixon said that they had a 17-18% reduction in 1988 versus 1986 rate level. Chairman Hord asked what brings on this type of rate reduction. Mr. Nixon replied one reason was a customer, Occidental Petroleum, settling this case at the retail level. Following this settlement in December, 1988, the lower retail rates were put into effect immediately, he said. Nothing had been done on the wholesale side, so FPC contacted their wholesale customers and offered them the identical rate reduction and conditions.

Mr. Nixon stated the customer owns their own distribution system; therefore, they are not going to allocate any of the cost from Florida Power Corp.'s distribution system to the prices they charge KUA. We would pay for FPC's transmission system and their production system producing generation. That's what wholesale means. Chairman Hord stated we're a "factory outlet." Mr. Nixon replied, "Exactly!" Chairman Hord asked where is their incentive to be competitive? Mr. Nixon said a tremendous amount of customers is moving into Florida continually and attracting those customers is FPC's incentive to be competitive. He said they are a cost-effective, low-rate driven utility without sacrificing service. He indicated they are extremely motivated in this industry at the corporate level.

John Scheidt ran the video on the FPC Energy Control Center showing all its sophisticated computers, facets for dispatching, the multitude of substations, monitoring, sophisticated computers, etc.

Discussion followed on dispatching, using brokers for better pricing, load forecasting, their transmission planning group, manpower, and so on.

Chairman Hord thanked the speakers for their presentation, which he said was worthwhile. The speakers extended their appreciation for having been invited to make their proposal to the KUA Board. They then departed.

The meeting recessed at 7:27 P.M. and reconvened at 7:32 P.M.

Mr. Welsh gave several observations on FPC's presentation. He was impressed with their being very accommodating on a contractual and professional level.

John Harper, Chief Dispatcher at Marydia, said we have been at the Operation Center for nine years and have dealt with FPC during that time. He said they were never condescending because of our size or the amount of power usage. Under emergency type operations, he said, they never dropped us and always included us when the power need arose.

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Discussion continued on options of FPC or our becoming a generator. Chairman Hord expressed concern about being controlled by others. A rundown was made of the members already in the FMPA-IDO project. It was brought out that numerous members of the project can't appreciate our problems because of their size and needs and being in isolated northern areas.

B. MEETING ADJOURNED: Meeting was adjourned at 8:20 P.M.


CHAIRMAN

ATTEST:


SECRETARY