

MINUTES OF SPECIAL MEETING OF KISSIMMEE UTILITY AUTHORITY, HELD
WEDNESDAY, FEBRUARY 12, 1997 AT 6:00 PM, BRINSON BOARD ROOM,
ADMINISTRATION BUILDING, 1701 W. CARROLL STREET, KISSIMMEE, FLORIDA

Present at the meeting were Chairman Hord, Vice-Chairman Walter, Assistant Secretary Lowenstein, Director Ralston, Mayor Attkisson, Attorney Brinson, President and General Manager Welsh, and Recording Secretary O'Rourke. Secretary Guthrie was absent.

A. MEETING CALLED TO ORDER at 6:15 p.m. by Chairman Hord. Chairman Hord stated this was a special joint meeting with the City Commissioners. Chairman Hord introduced the KUA Board of Directors and Mayor Attkisson introduced the City Commissioners. Attorney Smallwood was absent.

B. PRESENTATION BY BARRY MOLINE, EXECUTIVE DIRECTOR OF FLORIDA MUNICIPAL ELECTRIC ASSOCIATION (FMEA) ON DEREGULATION POSSIBILITIES IN THE STATE OF FLORIDA

Mr. Welsh stated Mr. Moline would be describing two things tonight. First, the municipal electric utility industry throughout the state, its affiliate organizations and how they interact. Second, Mr. Moline would be giving a prognosis of where we are today and where we are going in the future, especially as it relates to deregulation and competition.

Mr. Moline stated Mr. Welsh nominated Mayor Attkisson to be on FMEA's Legislative and Regulatory Committee and this has been accepted. Mr. Moline said he was going to talk about four issues: who's who, the electric utility industry, some of the issues of the day and the utility of tomorrow.

Mr. Moline stated the Florida Municipal Power Agency (FMPA) is a group of twenty-six municipal utilities in the state who have joined together to purchase power and to build power plants. FMPA is essentially like a buying co-op, making it cheaper for a group to buy in bulk than for individual utilities to buy separately. Mr. Moline said FMPA is considered a utility and is located in Orlando. Mr. Moline said the American Public Power Association (APPA) is the national association of the municipal electric utilities and is located in Washington, D.C.

Mr. Moline described several components of the Florida Municipal Electric Association (FMEA) organization. First and foremost, are the legislative and regulatory activities. FMEA is KUA's voice in Tallahassee and constantly keeps KUA updated on what is going on in the legislative and regulatory arenas. The other components are conferences, training, publications and competitive readiness.

Mr. Moline said there are 3,250 electric utilities in the United States. Out of those, 2,000 are municipal electric utilities, 1,000 are rural electric cooperatives and 250 are investor owned (IOUs). In the United States, IOUs serve 75% of the population, municipals serve 15% and coops serve 10%. In Florida, IOUs serve 65%, municipals serve 25% and coops serve 10%.

Mr. Moline stated the philosophy of IOUs is that their primary concern is profit and they balance that profit and impact on shareholders with the amount of money they spend on their service. The municipalities primary concern is the customer and customer service. The coops primary concern is the customer, but because of their rural nature and the long lines between customers they tend to have higher costs.

Mr. Moline said two issues going on today are telecommunications and retail wheeling. Mr. Moline stated BellSouth, GTE and Sprint have introduced legislation to stop municipalities from offering telecom service. Municipalities cannot own, operate or control a telecommunications company except through a business corporation. Municipalities must pay all federal, state and local taxes that BellSouth, GTE and Sprint pay and there would be no partnerships allowed. Mr. Moline said within the next few weeks there are two hearings before the Utilities and Telecommunication Committee and KUA is involved in this issue.

Mr. Ken Davis, Director of Engineering, stated there was a meeting on this telecommunications issue in Gainesville last week which he and Barry Moline attended. There were a number of utilities there and they were all concerned about this. Mr. Davis said KUA has put a lot of fiber in and have been talking with other agencies such as Sprint to lease fiber to them. KUA has also put fiber in for the city and the county. Mr. Davis said a committee was established, the Community Telecommunications Council which is a group of utilities that are going to put together their joint efforts to fight this legislation. Mr. Davis stated we are providing fiber services to the city and when the city adopted the resolution that allowed KUA to get into the telecommunications and data business, part of that arrangement was that KUA would transfer 5% of their gross revenues to the city to the general funds.

Mayor Attkisson stated that the phone companies do not want local government in the business unless local government sets up a corporation that pays its taxes. Mayor Attkisson asked if there would be a problem with that. Mr. Moline stated this is illegal and the Florida constitution forbids a municipality from owning a corporation or owning stock in a corporation.

Mr. Moline stated retail wheeling is a term that means power from a utility somewhere else that can be transmitted to a customer in the KUA service territory. Mr. Moline showed a fifteen minute video on retail wheeling.

Mr. Moline said the impetus for retail wheeling comes from the cost of electricity. The cost in the Northeast and California is very high. The national average price of electricity is \$.0691/kWh. In the state of Florida the average is \$.0696/kWh, in California the average is \$.0978/kWh and in the Northeast it is \$.13/kWh. Mr. Moline said there are political campaigns being won

and lost on the price of electricity in the Northeast. People in the Northeast want something to be done about the cost of electricity, but the problem is involving everyone else with them.

Mr. Moline said they have initiated some state activity and are looking at customers in those states choosing their own electric utility and they would also have to pay stranded costs. Stranded costs are if you want to choose a different utility, you also have to pay the mortgage from your existing utility of their power plants to get out, which eats up all the savings. Mr. Moline said the benefit we have in Florida by waiting and watching is that we can see if it works.

Mr. Moline said Congress is debating this issue right now and probably will for the next two years. The prediction Mr. Moline hears is that it will be debated before the next Congress too so this debate will likely go on for somewhere between two and five years before anything concrete is done. The issue they are debating is whether or not to pass a blanket law that requires all utilities to deregulate, all customers to choose their utility and make that mandatory versus turning the issue to the states and saying that every state must consider offering customer choice or retail wheeling to your customers. Mr. Moline said FMEA is promoting states choice.

Director Lowenstein stated the Northeast has hydro power, which is supposed to be the cheapest and the best, so why are their rates so high? Mr. Moline said they have built a lot of high cost nuclear power plants, so they have big mortgages.

Director Ralston stated just the threat of deregulation is already causing some utilities to try to lock in their best customers. Orlando Utilities Commission just made a deal with Martin Marietta for six years for a lower rate than they had. Mr. Moline said Lakeland has also gone to its largest customers and offered them five year contracts and guaranteed that their price would be within 5% of prices of utilities in the region.

Mr. Moline said the utility of the future controls costs, but still spends money when it is needed. Sometimes you have to spend money in new ways in order to make money. The utility of the future takes risks, but they must be reasonable risks. The utility of the future constantly improves service such as developing relationships with customers. Mr. Moline said we want the customer to think of a person at the utility. The utility of the future will offer energy solutions and flexible pricing. Mr. Moline said we want to solve the customers energy problems and if that means helping them with energy efficiency, that is possible too. The utility of the future needs to create an image and it needs to brand itself. When the customer thinks of this image they know that is the utility, the place to get good service and good prices.

The utility of the future also promotes in the community.

Mr. Moline said KUA needs to decide what it wants to be for the community, what KUA wants to do and what KUA wants its name to be because in the future customers might have a choice. If customers think of KUA as the company who offered energy solutions, then they just might choose KUA.

C. GENERAL DISCUSSION

Mr. Welsh asked Mr. Moline to give a prognosis of what is going to happen in terms of deregulation and when. Mr. Moline said the when is a hard one, but he thinks a minimum of four years, maybe six. Mr. Moline said the biggest problem with the what is it is unclear as to what is going to work or if it is a good thing.

Mr. Welsh said if deregulation is done rapidly and recklessly, it is liable to cause more problems for the consumers than benefits. Mr. Welsh said it is not easy when you start tampering with an economic system to know exactly what is going to happen. No one really knows what is going to happen when you start changing the parameters. Mr. Welsh said he thinks the Florida legislature and the Florida Public Service Commission have taken a very, very wise choice in terms of wait and see. Let the experiments take place in the Northeast and California and let's learn from what they are doing right and let's learn from what they are doing wrong.

Mr. Moline stated in California the municipal utilities were not included in the deregulation law. They could opt in if they wanted to and offer their customers a choice. Some municipalities are not opting in, but a lot are. Mr. Moline said he is not sure exactly what is going to happen, but he thinks in Florida we have a wholesale market that has wrung out the benefits of anything that we might come close to seeing with customer choice. In the nation about one-third of customers are residential. In Florida, 50% are residential and only 10% are industrial. The large industrial users are driving for deregulation because they buy large quantities of power and they would like a lower price for it. Mr. Moline thinks Florida might just see a fraction of deregulation when we see how it works out elsewhere.

Director Walter stated the Orlando Utilities Commission is making their presence known in Osceola County in a really big way and they are creating an image in the community. Director Walter said whether deregulation occurs or not it is good for KUA's rate payers for KUA to control costs, improve service and create an image.

City Manager Durbin stated that KUA has already begun developing relationships with the community and asked if KUA would take this even further and start a program of donating to social service agencies or to the Osceola Foundation for Education like OUC is doing. Director Walter stated he thinks it is a lot more to be involved in the community than just giving funds. Director Walter said KUA would have to posture itself just like a private

company would to try to keep its market share. Director Walter would not say what KUA would or would not do but said KUA will have to continue to react to those changing forces that are on the outside and causing us to compete. Director Walter stated KUA has a lot of good customer service programs to build customer loyalty, but KUA should not wait for six years from now to start thinking about it.

Commissioner Burke stated KUA is already making inroads into the community and just by having the class of employees that KUA has, that everybody is going to pitch in no matter what it takes, is a great image. Commissioner Burke said the KUA logo is our brand and customers relate it to rapid response and courteous employees. Commissioner Burke said KUA should continue where it's going and maybe increase it a little bit, but KUA is on the right track.

Mr. Welsh stated in the last year and a half KUA has started a new program whereby every department head and every top manager teams with a member of the customer service department and goes out and visits a key account or large customer. KUA makes this visit to find out what the customers are doing, what their problems are, how KUA can help them in electric or in any other way. KUA has taken the attitude of one-stop shopping and sometimes customers bring up problems they have with the city. In these instances, Mr. Welsh contacts City Manager Durbin who then handles the problem.

Mr. Welsh stated the only reason the utility is here is to serve our customers and the community. Mr. Welsh said KUA is preparing for competition and plans on doing even more by taking on a marketing orientation as an organization. Mr. Welsh said it will be suggested to the Board that KUA develop an aggressive marketing function immediately in the upcoming budget year. KUA is planning for deregulation and competition as if it's going to be here tomorrow. If it is not here, anything that we do for it is going to be good for our customers anyhow.

Commissioner Hemphill said there is no difference between KUA's kilowatt hour and a kilowatt hour provided by somebody else. The only real competition is selling service and that is what will make the difference.

Mayor Attkisson stated if we don't know what is going to happen, let's make it happen our way instead of letting somebody else dictate what's going to happen. Mayor Attkisson said KUA needs a high quality service and we need to promote in the community, but if full deregulation does occur, the decisions of major chains and hospitals in the community will be made where their corporate headquarters are and they will not concern themselves with KUA's service. Mayor Attkisson feels himself and Chairman Hord should sit down and discuss what are the issues of the KUA Board, what are the issues of the city, how can we make them cohesive and how can we go after them and then bring that information back to the appropriate boards.

Commissioner Makinson stated he does not want to lose the revenue that KUA gives to the city because then services might have to be cut or taxes would have to increase. The city needs to get an ordinance in place so that when someone like OUC or Florida Power comes in here, they would have to pay the city the same amount of money that KUA pays. City Manager Durbin said FMEA's attorney has drawn up an ordinance similar to what Commissioner Makinson spoke about. This ordinance will be brought before the City Commission shortly.

Chairman Hord stated everyone needs to be public relation ambassadors for KUA and the city. Chairman Hord said we also have to be sales people in all respects. KUA has to be able to react in one way or another and has to be able to do what needs to be done.

Mr. Welsh said if deregulation comes about in its full force, KUA must get competitive, must get lean and mean and must keep an open mind so we can react quickly.

Chairman Hord said one of the first things that needs to be done is to hire a marketing person. Mr. Welsh said marketing is not only sales and advertising, it is looking at what kind of products we want to offer, at what price and how to distribute these products to our market.

D. OTHER

E. HEAR CITY MANAGER, CITY ATTORNEY, CITY COMMISSIONERS

No comments.

F. HEAR GENERAL MANAGER, ATTORNEY, DIRECTORS

GENERAL MANAGER - No comments.

ATTORNEY

Attorney Brinson stated if KUA is going to be in a competitive market and dealing with private industry and we are operating under a different set of rules it is very difficult to get together. Mr. Brinson said the legislature is going to have to help when we start dealing with private industry.

DIRECTORS

Director Ralston thanked Mr. Moline for his enlightening presentation.

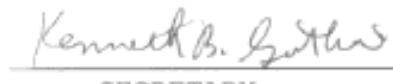
Mayor Attkisson proposed that over the next year the staff of the city and KUA get together to develop what the main issues are from each Board. Mayor Attkisson said these would be issues relating to marketing services on the KUA side and also legislative issues. One concept would be to go to the county commission and work an interlocal government agreement. Mayor Attkisson would like to have a master plan by the end of the year as to where we are heading.

Chairman Hord thanked all the city commissioners for attending this meeting.



CHAIRMAN

ATTEST:



SECRETARY

G. **ADJOURNMENT:** Meeting adjourned at 8:05 p.m.