MINUTES OF TEN YEAR PLAN SPECIAL MEETING OF KISSIMMEE UTILITY AUTHORITY HELD WEDNESDAY, FEBRUARY 1, 1995, AT 7:00 PM, BOARD ROOM, ADMIN. BLDG., 1701 W. CARROLL ST., KISSIMMEE, FLORIDA

Present at the meeting were Chairman Gant, Vice-Chairman Walter, Secretary Bobroff, Assistant Secretary Lowenstein, Director Guthrie, Mayor Pollet, Attorney Brinson, President & General Manager Welsh, and Recording Secretary Rundio.

I. MEETING CALLED TO ORDER at 7:00 p.m. by Chairman Gant.

II. AUTHORIZATION TO PROCEED WITH THE PERCOLATION POND RELOCATION AT CANE ISLAND

General Manager Welsh addressed this with a request for an authorization to proceed with the percolation pond relocation at Cane Island. The cost for this will be borne by Black & Veatch (B&V) but we actually have to spend the money and withhold it out of retainage from B&V. Ben Sharma, Director of Power Supply, will use overheads to show where the pond is being relocated from and to, as well as address other pertinent details.

Mr. Sharma quoted the saying, "a picture is worth a thousand words", as he proceeded to highlight this via overheads. He said the drinking water must be 100 feet away from the water production wells. Ours are 80 feet away; therefore, the permitting was not approved by the Department of Environmental Protection (DEP). B&V checked the area and we tried to prove that our wells are in a safe area. They told us to move the wells or move the pond. The new location will not jeopardize our new location plans. We had sent the new proposal to DEP and they agreed to it. We are expecting receipt of the permit any day now. Staff requires Board approval to start work immediately.

Motion by Director Bobroff, seconded by Director Lowenstein, to approve Black & Veatch's request allowing them to proceed with the relocation of the percolation pond as soon as the DEP (Department of Environmental Protection) permit is received; and further authorize the President & General Manager to execute the necessary contract documents for that purpose.

Director Walter stated he thought it would be cheaper to move the well than the percolation pond. Mr. Sharma responded that the well is 8" wide and 315' deep and had cost us about $270,000.

Chairman Gant asked, if it was not going to be used as drinking water, could we get away with it and how close is it. Mr. Sharma stated that it is non-potable. Chairman Gant thought for that purpose we could have put down another well. Mr. Sharma said a new well would not be cheaper than relocation. Mr. Welsh said drilling the well would be cheaper but rerouting the necessary piping would not. Chairman Gant said the well water can be used for all units in the system but you can't drink it. Discussion continued, with Mr. Welsh stating this was the most cost effective alternative.

Motion carried 5 - 0

Mr. Welsh added that if it was our mistake we might have jury-rigged it, which we don't tolerate doing, at a slightly lower cost, but we wanted a system completely up to specifications.

III. PPROVAL OF SUPPLEMENTAL FUNDS FOR CONSTRUCTION MANAGEMENT SERVICES (UNIT 2) FOR BLACK & VEATCH

Originally we had planned to have the second Unit completed in January and now that's going on to March or April. The bottom line is we need to continue with construction of the plant and it is our recommendation to continue with construction of the plant and also with the construction management services of our engineers.

Mr. Sharma elaborated on the details of what we are recommending and why to finish out this project. The original contract with B&V called for $1.1 million for Unit 2 back in August, 1992, with a completion date of January 1, 1995. However, there were several complications along the way, and with the additional relocation and travel expenses for some of B&V's people, etc., B&V is running out of money for this project. We asked them about the additional costs towards the end of the project, expected to be March 1st, and they came up with a full-time equivalent man days of 54 days, equaling $395,000. We feel this is justified and recommend that this money be approved. There is no problem funding this money as we are way below our budgeted amount at this time.

Chairman Gant asked why we are running behind schedule of our original due date on this particular combined cycle.

Mr. Sharma said we are behind schedule on Unit 2, firstly, with General Electric's equipment delivery being late; secondly, a delay was responsible by ABB (Asea Brown Boveri) who supplies the big transformer which did not get there until a month later. A third reason was the condenser. After it was manufactured the company was trying to move it out on a wide-bed trailer which overheated. It had to go back to the manufacturing plant again. Our gas transmission line will not be open until March 1st anyway. We also had a problem with Fru-Con, the general contractor. Initially they did not have enough manpower in July, 1994. Now everything is targeted for March 1.

Chairman Gant asked if there is a lesson to be learned from this--that almost everytime we do business with outside agencies and it gets this close to the end of the job there are always delays and additional dollars involved at the end of the project. Always. Always. Well, except in a few rare cases have they ever come in ahead of schedule. There must be an answer to it. It was not our responsibility regarding GE (General Electric), nor for delays with the transformer and condenser. Then we shouldn't be behind the ball having to pay for the catch-up.

Mr. Sharma stated that those involved that he mentioned have a plan along with a settlement with Fru-Con, and we have a plan to go after them. B&V has done some sleuth work as to who contributed to how much of these delays.

Mr. Welsh said that in the big picture, even though it's not perfect, if you look at the job that was planned, it's well under the original budget and that a contingency plan was available and planned for this. Therefore, we must ensure we have an adequately planned budget. The big picture was fairly well managed. Initially, a construction schedule can be made which you won't miss if you build sufficient contingency in it up front. In terms of construction management, you're better off making a somewhat optimistic schedule and start forcing the contractor early on to stay on schedule. It's advantageous to set that target fairly high in terms of an optimistic delivery date.

Discussion followed on the delays and contract settlement we encountered during the construction of Stanton 1.

Chairman Gant stated there probably isn't a contract that we have in which we don't have to address additional money going into the project.

Attorney Brinson stated that this operation is probably the most complex that the City or KUA has ever had; that there is a lot of posturing going on amongst the companies.

Mr. Welsh stated these were originally anticipated when setting up the project budget and we were aware what can happen with a complex process such as this--but there are certain unknowns which can't be specified up front.

Chairman Gant said this should be included in the next contract. He emphasized why should we be charged with one of our suppliers holding up a contractor. If it was written in his contract that we weren't responsible, e.g., for GE holding up the engine, then he has to stay on top of that and he is responsible for the delay.

Mr. Brinson said that being a governmental agency we are more or less obligated to award the bid to the lowest and the best bid. The people we are contracting with are beginning to take issue with the wording of the contracts. With a low bidder, he can take exceptions to consequential damages, there isn't much we can do except perhaps take the next highest bidder who will sign that contract.

Chairman Gant said we won't ever get it in unless we try. Mr. Brinson said, like B&V's standard contract, everybody lately takes exception to a consequential damage provision. It's a battle getting the wording in the contract and negotiate from there.

Mr. Welsh said the contractor and suppliers take the viewpoint to a certain extent that the buyer has to take a certain amount of risk even for a late delivery, but they say they will do their best.

Chairman Gant's objection is the issue of coming in on time and our not having to spend those additional monies at the end.

Director Walter said if there's a delay under the contract and our construction management team is on the job and they run out of time because of the delay, we can't send them home because it puts the rest of the project in jeopardy. Later, we can find the people responsible for those delays that incurred those additional costs and see what portions and who will share what. The situation is not that we're paying it out now, we may recover some of that, but we have to keep our construction management team on the job to ensure that the job continues with the same level of quality with which we began.

Chairman Gant emphasized that this really has to be put in place. This is such a complex contract, that without the good work B&V has done to have them continue on the site, he cannot see any other way.

Motion by Director Bobroff, seconded by Director Walter, to move for approval of Staff's recommendation of Black & Veatch's request for supplemental funds for Contruction Management Services (Unit 2) in the sum of $395,000; and authorize the President & General Manager to execute the necessary Change Order to Black & Veatch's contract.

Director Guthrie inquired why they suddenly need four more people for the extension. Mr. Sharma replied that, due to the activity on site, the contractor and electricians are working seven days and 12 hours a day, and talking about working 24 hours a day, to meet that March 1st deadline.

Mr. Mike Goering, Field Engineering Construction Manager for Black & Veatch, said that some of the added staff is for supporting the contractor. He said they are under a very compressed start-up schedule which is cut by half the normal four-month period.

Motion carried 5 - 0

IV. 10—YEAR PLAN

A. INTRODUCTION AND OVERVIEW

Mr. Welsh said the 10-Year Plan and the Goals and Objectives for the 1995/96 Budget are being done slightly different than in the past. During the previous Plan meetings we had them in early November/December and later in the January/February time frame the Goals and Objectives were done at the start of the budget process. What we've done is condense that activity, he said, so we're doing both of those at the same time. So, this is the 10-Year Plan and the start of the 1996 budgeting. Next year we plan to condense it some more and may do the 10-Year Plan and Goals and Objectives towards the end of February or early March.

Basically, in terms of the 10-Year Plan, it becomes a base line for anything we want to do concerning adding new generation and in terms of perhaps doing cash defeasance or planning bond issues. We can then plug in an alternative to see how this affects us overall. The big base for this Plan is that we've gone out and done 10 budgets from each operating department. They looked at their budgeting and personnel requirements, their overall costs, etc., for 10 years to come up with this. This isn't a plan that was developed by an analyst doing projections with a few numbers. It involved a vast number of KUA employees with every department having input into it for their needs. We have not specified during these years any major generation, as that is not the purpose of this. It could be built by us or shared by us with other utilities.

One of the alternatives of meeting the projected power supply needs is projected via power supply purchases when it goes beyond our current capabilities.

The format for this evening would entail Finance Director Joe Hostetler discussing various alternatives and policies, decisions and directions, and for the Board to advise Staff the direction they desire KUA to head in. He will discuss the implications of the numbers you're seeing and also under various scenarios and the members will see negative reinvested earnings. This is not a cause for heartburn. The members will need to focus on other parameters as well in terms of making major decisions. The quality of their decisions and the overall view of the financial health of this Utility might be increased and strengthened. Mr. Hostetler would explain that reasoning.

This big picture is in conjunction with the Personnel Overview by Mr. Neville Turner, Director of Personnel & Risk Management. He will highlight projected budgets, wage and benefit increases. The members will be asked for their guidance and direction and whether we should continue in this vein, especially with the 1996 budget. These are even more of a projection than in the past; they become the budget we live by in terms of wages and benefits. For the employees in the bargaining unit, that will ultimately be settled around the bargaining table and subsequently that package will be brought to the Board for their approval or disapproval. This will not be decided in the normal budgeting forum as in years past.

The above reports will be followed by departmental expenditures. Each Department Head will detail their personnel staffing projections and their capital expenditures and make a brief presentation. Alternately, it has been the Board's pleasure at times to just merely entertain specific questions they might have, or they may choose a brief presentation from each Department Head.

The Jobs 2000 item was tagged near the end. Two evenings were set aside, if required, for the 10-Year Plan and Goals & Objectives.

B. FINANCIAL HIGHLIGHTS

Mr. Hostetler highlighted the approach and assumptions we use, reviewed the fiscal policy which the Board approved in 1992, and went over the 10-Year Plan Financial Statement (Balance Sheet, Operating Statement, etc.). He took a look at KUA's outstanding debt and got into the financial outlook, which includes last year's 10-Year Plan and forecast and how it changed and what caused those changes. He went into several rate scenarios and walked the members through the process that we went through to come up with the direction we would like to recommend we go in. The cash defeasance option will be presented and Staff's recommendation on the direction we should head.

Mr. Hostetler stated the departments prepared their part of the Plan based on the guidelines that the Finance Department gave them for operations and maintenance and capital expenditures. They highlighted and calculated the major issues in their department and came back with their projections for staffing requirements over the 10-year period and noted why they needed any increased staffing. The FY 95 Budget is used as a starting point. For payroll, the assumption was made for a 3% Market Level Increase. Other expenses outside of personnel and fringe benefits assumed a 3% inflationary factor. They used the Power Supply load forecast, which will be updated for the Annual Budget which will take place in the next couple of months. The load forecast of 3% was used for growth in both customer base and electricity sales.

One of the biggest things they wanted to follow was the Fiscal Policy set by the Board in 1992. To review, the Policy states that bond proceeds can only be spent on generation and transmission projects. They did get the Board to approve an adjustment to that Policy. We have excess bond proceeds due to Cane Island coming in under budget. To use up those bond proceeds, they recommended the Line Extension projects be reclassified as projects on which bond proceeds can be spent. This was done effective for FY 1994.

The second item in the Fiscal Policy is the current earnings. Current cash generated from operations must be adequate to fund the current year debt service, year-to-year O&M expenses and year-to-year capital considered minor capital. This is a Fiscal Policy but the current earnings, funding debt service and O&M expenses are also a bond covenant, so we don't have any choice in that. We also have a target to keep $5 million in the Reserve for Future Capital Outlay. There is also a minimum level of three months' of O&M expenses to be maintained in unrestricted operating cash. Also, we have a minimum level of 1.5 debt service coverage. The bond requires 1.25 but we set this up at 1.5.

Chairman Gant stated that as we grow we should maybe be thinking of indexing those funds. Considering the size of different projects and as inflation occurs, these numbers get less realistic. The $5 million we put up several years ago, five or ten years from now won't be very meaningful, so somehow we might want to think about how to index the $5 million and the $100,000 where it applies to the various sizes of projects.

Mr. Welsh stated that a good index would be the Board's decision on the Market Level Increase as a nominal index because it's something that the Board has control over and sets every year.

Director Bobroff stated, as a matter of information, that it is his understanding that we did away with the word "profit" and began using "reinvested earnings" to indicate what in business would be a profit. He said that Mr. Hostetler reminded him a moment ago that the $5 million minimum is in that account. Mr. Welsh stated it's in the Reserve for Future Capital Outlay, on the balance sheet is a cash account. This is a different account than net reinvested earnings. Director Bobroff said that the $5 million must be kept in the Reserve for Future Capital Outlay and asked if we're talking about the same thing. Mr. Hostetler explained that it is an income statement that correlates to profit in private enterprise. Director Bobroff said he would have some additional questions on the chart being shown on this.

In response to Chairman Gant's earlier question, Mr. Hostetler stated how quickly the operations cash account is growing and the theory behind this item was to always have a cash cushion in case something happened, not from the perspective of what the Self-Insurance Fund was to protect us against but if for some reason we could not generate electricity internally and had to go out on the market and buy expensive electricity so this could help us get by that time period. But that the increased cost of fuel would be passed on to the customers and if something more drastic happened we wouldn't be generating any electricity at all. We wouldn't have the fuel portion of the O&M expenses, except for personnel costs.

Concerning Chairman Gant's earlier query that a minimum level of three months of O&M expenses must be maintained in unrestricted operating cash, Mr. Hostetler stated he would recommend taking a look at transferring some of this O&M cash into the Reserve for Future Capital Outlay and reclassify them on the balance sheet.

Chairman Gant said one item mentioned was that the Board changed the policy last year for the use of bond proceeds. He said it was his intention that there is a statement that we continue doing that and asked if that was really our intent, or can we take a specific project or was that part of our policy.

Mr. Hostetler said we have quite a bit of bond proceeds left and we don't want to spend these on minor capital. One option is to spend it on line extensions, the next biggest capital requirement we have that is not already being funded from the bond proceeds. We also may be able to buy back bonds.

Chairman Gant didn't have a problem with that, he was just asking what we intended when we made that change.

Director Guthrie recalled there being a specific list of items to spend it on. Mr. Hostetler said they were all line extension fund projects. We also have a requirement that within ten years that money has to be spent. Chairman Gant asked if that money was gone would that still be part of our policy. Mr. Hostetler said no, we would probably recommend that we revert back to letting operating cash generated from operations pay for line extensions.

Mr. Welsh indicated that in some of these scenarios you see negative reinvested earnings. It's not causing a problem but normally if you'd pay for it out of operating cash it would be part of your reinvested earnings. Now that we don't need to pay for that your reinvested earnings can go negative without having a cash flow problem.

Director Bobroff referred to chart II-1 where it shows FY 96, 97 and 98 as negative figures which, to him, mean loss. When you define Reserve for Future Capital Outlay as profit he could not understand any business willfully putting in a loss of any sort into their future budget, such as this. First of all, that money usually goes into worthwhile projects, basically it has not gone for payroll and all the other things that is the normal cost of doing business. Now we've put ourselves in a position of eating into that $5 million we're supposed to keep in the bank. Is he right or wrong, he asked.

Mr. Hostetler replied he was partially correct. The point Director Bobroff was making was that we should be building up the Reserve for Future Capital Outlay "profits" (a private industry term), and if that's the term to use, how can we be saying we're going to have a net loss for three consecutive years. Mr. Hostetler said the only way to eliminate that loss would be to have a rate increase in 1996. Director Bobroff stated that without a rate increase we'd take a loss and we're willing to take and gamble on the loss. Mr. Hostetler said that the projection is we could get rid of the loss for three years without any problem. Director Bobroff inquired if he's ever known a business that wanted to do it that way. Director Lowenstein stated that the Finance Director is giving them three scenarios. Director Bobroff continued, if you were budgeting for your own business, would you budget three years of losses in a row? Director Lowenstein chuckled that he wouldn't budget one year's loss!

Director Guthrie asked if one of the figures (I-2) included Homestead, to which Mr. Welsh replied that it does not since we don't know the results of that.

Director Lowenstein found it confusing in that we build a great plant (Cane Island) for usage and we decrease the power from it, then go to purchase power. Chairman Gant said he also wanted to ask that question of Power Supply later.

Mr. Hostetler continued his presentation and hit some of the highlights of the balance sheet. The financial statements he showed in the next four or five pages were based on the assumption shown on II-1 of 2.8% rate increase in 1999. This is the set of financial statements that correlates to that. He went over various line items shown on the overheads.

Mr. Hostetler touched on Reserve for Future Capital Outlay. We're projecting a $31 million balance at the end of 1995 and we end up over the fiscal policy of $5.3 million, so we're right at the fiscal policy at the end of the year 2004. He alluded to the cash and cash equivalents on the current assets section showing three months of O&M without excluding depreciation. We have $13 million at the end of 1995 and it goes to $26 million at the end of 2004. That's a lot of money to have in unrestricted cash and we need to relook at this and return with a recommendation. It was clarified that "cash" does not mean cash--it's really all invested.

Chairman Gant asked about the bond fund, do we go back to the bond market. There is a $10 million bond issue borrowed, $9 million of which was borrowed for construction in 1999 and we spent $2.5 to $3 million of our own money on the Boggy Creek Substation. Discussion followed on how this works.

Mr. Hostetler highlighted the operating statement and detailed several line items, one of which was the ECCR (Energy Conservation Cost Rate) revenue line item. This was a rate the Board approved effective in June, 1995 to recapture the Load Management rebates which we're giving back in credits to the customer.

One of the things not included is the Homestead purchase which will be, in effect, an automatic rate increase. When you purchase Homestead you don't own it; FMPA purchases it and we just buy the purchase power from them. These costs are recovered in the COPA (Cost of Power Adjustment) revenue and are not reflected here.

Chairman Gant informed the two new members that the reason COPA was designed was to take care of fluctuating fuel costs which would keep the rates standard and the rates could be adjusted accordingly. Since then, we have let all our purchase power flow through the COPA also and he said we're not accomplishing what we really intended to, but we're certainly protecting ourselves by using it this way. If we paid more for power then the ratepayers pay more for theirs. It keeps going up and up. If these don't reflect high COPA rates on the bill then he would be surprised. If they don't, it will be okay. If they do then we may need to look again as to what we intended for COPA.

Director Bobroff inquired what would cause COPA revenues to go up from $3 million to $34 million. The response was Stanton 2 contributed to it, plus purchase power. Not all of the fuel is recovered in COPA. It's only the portion of fuel and purchase power costs not already contained and captured in the base rate. The base rate needs to be reestablished and we'll capture more of the base rate and less in COPA. We should be looking at it and deciding what to do and when to do it.

Chairman Gant asked exactly what impact does COPA have on the base rate. Can it reflect itself in the COPA rate being down based on the number of customers, or does the fact that COPA is going up reflect that we're paying more for power than we need to. Are we not being competitive in the purchasing market as compared to what we can generate it for, he inquired.

Mr. Welsh said these are all projections, but he felt that COPA revenues going up is a combination of growth and an increase in fuel and purchase power costs being projected. What they actually turn out to be will be dictated by the marketplace.

Mr. Hostetler pointed out to FMPA's reimbursement for operating costs and overhead applied through the participation agreement on Cane Island; depreciation; non-cash expense; sources and uses statement; net reinvested earnings; interest on debt which is a cash outlay; and a number of other line items.

The objective of setting up these scenarios was, what is the least amount of rate increase that we can do to get by, meet all the fiscal policy parameters and still be okay. We are trying to limit future rate increases.

Director Bobroff inquired about depreciation and amortization, can each year's figures stand on their own? He pointed out how they fluctuate. The General Manager stated that you couldn't do that for the balance sheet statement but for the income statement and cash flow statement you can consolidate them. This is based on a 3% growth factor. We are right on projections so far in 1995 and we're within one-tenth of a percent of being on the sales projection for '95. For FY 94 our growth was about 5% above projection sales. We make our plans on a conservatively low forecast; it may get worse but hopefully we want it to be only a 10% chance of being worse.

Discussion was had on our cash position, which is not that bad. Questions by the members were responded to by Staff on various issues.

Chairman Gant said we should be looking at this very carefully. We're exceeding our 3%. He would push for the 3% rate increase not by 2-4%, but we should do it at 3% over six years as a good business practice.

The question arose whether the $5 million funds in Reserve for Future Capital Outlay were being properly utilized. The Chairman did not think they were being used for capital. The General Manager did think that they were used that way for capital expenditures. According to the Fiscal Policy it can be used for moderate and long-term capital, generation capacity. Discussion continued.

Mr. Hostetler highlighted the total bond issue, a little over $10 million, the reason for it being the Boggy Creek Substation for $10 million and the remaining $5 million is to come from Reserve for Future Capital Outlay. He reminded the Board that we have four issues outstanding at this time, Series 1987, 1991, 1993 and 1993A and noted why they were issued. Mr. Hostetler also explained the outstanding debt service before and after cash defeasance.

Last year we had a 7% rate increase factored in 1996 and had no bond issues in that plan (this year we have a $10 million bond issue). The biggest thing is the ECCR revenues where we gave the Load Management credits out every year over ten years. Our external auditors had made a recommendation to look at this. The Board at that time had charged Staff with developing a rate and coming back for a presentation to the Board; however, there was insufficient time to accomplish this. At that meeting, Mr. Hostetler had said that based on the projections available at that time, that the 7% rate increase could be pushed back somewhat and greatly reduced and possibly eliminated. We were able to come down to a 2.8% rate increase instead of in 1996, to 1999. The Board had approved this ECCR rate in June and since then we have been recapturing the Load Management credits.

Director Lowenstein inquired that if we revised the ECCR to some degree in the future, what would the effect be on this. Mr. Welsh replied, neutral. There would be no effect.

Concerning the financial outlook of the overview report, the members were walked through our methodology and thinking for developing the recommended plan. After the departmental numbers were in, the assumption was made that there will not be any rate increase and no bond issues and we will see what the outcome is. The result was we had losses every year which any business cannot sustain continually. He went through the various negative accounts, totaling $15 million. These are impossibilities. This brought out the need for recovery through rate increase and bord issue. We are generating enough cash to meet our $1.5 million debt service coverage. He went through various scenarios to recapture the needed revenues. He highlighted what it would take to defease the bond issues in smaller or larger amounts. What they will try to do is adjust the level of term bonds we are refunding (defeasing) to see how much money it would take to equate these two plans (scenarios) together, thus saving a lot of interest in future years on debt we won't have.

Mr. Hostetler stated we would take a look at the above options. Tonight the Board was being asked for direction whether we should keep the cash or not do the defeasance and Staff will make another presentation at a later date.

Chairman Gant stated that when reviewing the defeasance scenario, Staff should take a look at the impact not only of the $9 million bond issue, but figure out the expense of that bond issue and see what the impact will be in drawing interest on it rather than going back to the bond market.

Mr. Hostetler said we did factor in some level of the bond cost. This is just the construction fund. He believed all the costs associated with these scenarios have been recaptured. The bottom line is this is the best plan. Staff's recommendation is that we not have any rate increases right now. Getting into the budget session we'll have more current numbers and we'll update our load forecast. If interest rates rise more than 50 basis points, the interest earnings will be looked at again. We may be able to get by without any projected loss at all without doing any rate increase. Discussion followed.

KUA must also take into consideration that we're facing competition and what will we do regarding increasing rates, etc., and in what year. Growth will also have to be considered, which will require more generation. It's a good plan where we can put in alternatives to see how it affects us in making decisions on defeasance, Homestead, etc. At this point it's only a plan; the reality is uncertain.

The members commended Mr. Hostetler on doing a great job on this 10-Year Plan. Mr. Hostetler took this opportunity to thank his staff for developing and working with this new model and for their hard work.

The meeting recessed at 8:56 p.m. for about 10 minutes.

C. PERSONNEL OVERVIEW

Mr. Neville Turner, Director of Personnel & Risk Management, highlighted the organizational chart and staff requirements and projections for the 10-Year Plan from 1995 through 2004. He stated that with the Board's approval we used 3% for the Market Level Increase for planning purposes basing it on a 3% growth in customers and in sales. The growth in our staffing represents about 1%. He noted the additional staffing to be added in various departments. Mr. Turner stated that we do need the Board's approval for this Market Level Increase.

Brief discussion was had on the sale of the 8 Broadway Building and the move to the Carroll Street facility.

Motion by Director Walter, seconded by Director Bobroff, to approve a 3% Market Level Increase.

Motion carried 5 - 0

D. DEPARTMENTAL EXPENDITURES

Mr. Welsh suggested we can have each department present the capital and the personnel requirements or just have them respond to members' questions.

Director Guthrie was in favor of discussing the purchase power in more detail. The members favored receiving explanations to their questions.

1. Power Supply

A question that came up was why are we projecting to gradually decrease from 401,800 MWh in FY 95 to 252,100 MWh in FY 04. This is based on the current model and may change in the future. A decision has not been made to effectuate this scenario (pg. I-2). This is based on a projection of costs which may come in differently than projected. Basically, the input variables of this model is one thing that may change such as the fuel cost forecast. The fuel cost forecast used was done by Black & Veatch last year, at which time gas prices were $3.25 whereas the differential in the forecast widened the margin. Gas became more expensive faster than anticipated. Right now we know that the gas price went from $3.25 to $2.25 last month. He furnished additional information.

Power from our ownership interests in other plants is projected to remain steady until 2001, when it is projected to fluctuate and drop to 107,500 MWh in FY 04, or 9% of our total requirements. Mr. Sharma said the cheapest energy based capacity would be considered somewhere else.

Director Bobroff stated that makes a big assumption in Florida Power, or whoever has the capacity, to sell us power. Mr. Sharma said that's right. Director Bobroff said that we are predicating something that could be out in the air. This is a planning tool, Mr. Sharma stated. Director Bobroff asked what the alternate was. Mr. Sharma said that every year we do a generation expansion plan, a Ten Year Plan just to meet the load requirement with some borrowed capacity. Director Bobroff stated that we have a plan for five to six years, and another plan running a negative figure for money for capital, and we are doing nothing but floating on air hoping we will be able to buy from Florida Power and that it is projected that we cut down production at Cane Island.

Director Bobroff continued, that when running on negative figures you are not building any additional cash to go into more generation, if needed. He said he couldn't predict the situation in Florida any more than anyone else can, but that if we are showing any growth other areas in the state will show equal or more growth. He said that all of a sudden we will have to spend a lot of money for power from some source from which we don't want to buy, or get additional generation which may take cne to three years to get.

Mr. Sharma stated that in thinking about the capacity addition, since we have prepared this report, we have already made an arrangement for another 16 MW from Homestead. He further elaborated on the ongoing situation.

Director Guthrie stated he did not think we have a 10-Year Plan for power generation if all these facts are not listed in the Plan.

Mr. Welsh agreed that we do not have a power generation plan; we have a 10-Year Financial Plan with many scenarios with Power Supply that can fit within the confines of this base Financial Plan.

Director Guthrie added that if you need a generation facility in 2002, you have to have that in your Financial Plan, which is not included here. Mr. Welsh replied that there are capacity payments for buying capacity, or those payments can be used for the debt service to finance a plant. He gave an in-depth explanation on the pros and cons of generating our own capacity and discussion followed.

Director Lowenstein emphasized to Staff that in order to bring everybody, especially the new members, up to par that maybe we should put the Power Supply Study on the agenda. Mr. Sharma said this is already scheduled for the latter part of 1995 or early next year.

Chairman Gant made the same assumption as the other members, that this was reality, not the model, thus generating many questions. He commented that if this is strictly from the model, and we're going from 60% generation, 40% purchase, to 20% production and 80% purchase, then it's contrary to his philosophy.

Mr. Sharma said his staff is looking at whether it's cheaper to run Cane Island or go through purchase power.

Mr. Welsh made a point on the timing of the Power Supply Study. One thing that will be a major factor will be what this Board and organization decide to do with the IDO Project or the Expanded All-Requirements Project. A Workshop has been established with FMPA for Monday, April 17th, at 6:00 p.m., to discuss their management philosophy on IDO, etc. The Board will not be making decisions at that point, but they should make decisions as to whether they wish to pursue that further with a full-blown production costing type of analysis involving FMPA's Power Supply Engineers, R.W. Beck, and our Power Supply Engineers, Black & Veatch. If they decide they don't want anything to do with the above, then we operate under that scenario and proceed to do a Power Supply Study excluding all the above. If we do go for it, then a decision would be whether we want to get involved with the All-Requirements Project. Or, we don't have to do a Power Supply Study. If we don't get involved, then we drop back and do the Power Supply Study.

April 17th is the first step in the policy making decision of this Board leading us to future power supply planning and the direction we should take.

Mr. Sharma highlighted the functions and responsibilities of his divisions and staffing requirements for the next ten years.

At this time, Mr. Welsh said, we have prepared a flexible presentation of each department or a detailed presentation on the operations of each department, whichever they prefer. Or, Staff can respond to questions.

Some members felt that having a presentation every few months would update them, giving new members further insight of the plans under discussions.

Chairman Gant made an observation concerning professional and contractual services (03, pg. II-II-6) which applies to combining those two big services and materials and supplies (05) both of which should be explained more fully. Mr. Sharma stated that 03 includes all the purchase power; 05 includes fuel costs.

Mr. Welsh reminded the Board that our philosophy is right-sizing on the way up and the main purpose for that is job security for employees. This would ensure that any new employees added are absolutely necessary, further ensuring that down the line there would be no lay-offs, such as some other companies experience.

2. Information Systems

Director Guthrie wanted clarification on a statement by Dennis Wick, Director of Information Services, whereby he said he was saving money by not contracting maintenance. He specifically referred to 03 professional and contract services (III-12-4) and asked what it included. Mr. Wick stated that it does not include Rivera Maintenance Service; this works in conjunction with 01. He said he has a staff of seven and two additional positions may be required. Contract services is where we get outside help to do some of our projects in order not to have to hire additional people. Item 04 answered Director Guthrie's original question.

3. Transmission & Distribution

Chairman Gant inquired if there are major items over the ten-year period that would impact this system.

Mr. Welsh replied that mainly we have replacement items and no major capital type expenditures. We see some increase in personnel projected as the load increases and our service territory increases.

Chairman Gant stated that we need to visit the issue of Load Management. Mr. Welsh stated that, as Mr. Hostetler pointed out, it's neutral in terms of it's effect on reinvested earnings. Chairman Gant said not putting the equipment in the field would save us a half million dollars. Brief discussion followed.

Mr. Sharma briefly reviewed our Load Management time line and what is required of us by the Department of Community Affairs.

Chairman Gant agreed it was neutral as far as rates are concerned, but we would save $0.5 million by not installing the equipment. Mr. Welsh stated that the only way we will not install that equipment will be to turn the program off or make it less attractive for customers to sign up. Chairman Gant said we need to get into the discussion of this program as early as we can. Mr. Welsh said we're in the midst of going before a hearing of the PSC (Public Service Commission). We are awaiting the decision of the PSC in terms of other conservation measures being employee'. Director Walter stated the Board had decided to lock at the whole conservation package. Chairman Gant emphasized we should lock at the program now and save money, that other people are getting cut of it.

4. Engineering

Mr. Welsh stated that most of the capital under Engineering is in the form of the Boggy Creek substation.

Director Bobroff asked if our mapping is completed except for Engineering's development of it.

Ker Davis, Director of Engineering, said that it is essentially completed, but that we just went to a new software company with a new project. It works much the same way, but they do things slightly different in some areas, which requires some changes and cleanup as to how it's formatted. A new computer model is being utilized.

5. Customer Relations

Chairman Gant asked what the impact will be by having this department move to this building. Mr. Welsh said we will only reduce staff by one person.

6. Finance/General Management

Concerning the budget for these two areas, there is no net increase to personnel.

No new personnel and no new capital is expected for the General Management Department, except for vehicle replacement.

7. Personnel & Risk Management

A personnel Technician is proposed for 1999. A Safety and Environmental Administrator will be added in 1995. Several Board members thought that safety and environmental issues were too much responsibility for one person. Mr. Welsh said it was budgeted to combine those functions and he felt one person could accomplish both positions. With Cane Island on line, we really need a professional knowledgeable in both functions for Cane Island and the Hansel Plant, as well as in other areas. Chairman Gant felt these are two separate entities and should require two people because of the volume of work involved.

Chairmen Gant asked the Personnel Director about the status of the Employee Organization Committee that dealt with personnel problems and issues. Mr. Turner said that group is very active and meets regularly to discuss a lot of issues. Mr. Welsh added that under review will be how the bargaining unit personnel will be affected under EOC and we're discussing this with our Labor Attorney at this point.

8. Materials Management

Director Bobroff inquired about the status of bar coding cur inventory. He was told there are a few bugs in the system.

In conclusion, Mr. Welsh stated that Staff has put in a lot of work or the Ten. year Plan and said it's an extremely valuable and flexible tool. It gives us a base line upon which to bounce off a lot of major policy decisions to be made by the Board during budget time, including Power Supply Planning and thoughts on Load Management It was well worth the time and he said he appreciated Staff's efforts on this. He also stated he appreciated the patience of the Board and thanked them for picking up on tough ideas and concepts.

V. JOBS 2000

A brief discussion had been planned during this meeting before meeting with the Jobs 2000 Blue Ribbon Task Force. It was already 10:00 o'clock and it was the pleasure of the Board rot to continue tonight but to meet with the Jobs 2000 Task Force first.

Director Walter said he is for Jobs 2000 coming in and making their presentation to see what they want us to do. We can schedule a workshop if we needed it.

Director Guthrie said it should be with the understanding that we will not make a decision at the time of their presentation.

Chairman Gant stated that it was proposed to us in such a way that we do what we want to do, and are not expected to follow their agenda.

In response to Director Walter, Mr. Welsh said the letter from Ed Moore of Jobs 2000 requested us to go forward with an eye towards the Board's adoption of this plan or in the near future; no decision was expected of our Board at that meeting.

Chcirman Gant asked Director Bobroff if that was satisfactory with him.

Per earlier instructions of the Board, Mr. Welsh has sent a letter to Ed Moore stating that the Board had scheduled a meeting for Monday, February 20, at 6:00 p.m., for this purpose and that an alternate time was scheduled for Wednesday, March 1st, at 6:00 p.m., and informed him that if we did not hear from him by Friday, February 3rd, we would assume that the alternate was not needed. The meeting would be held in this Board Room.

Chairman Gant said that we should meet with that Task Force on the 20th and also agenda this for the Regular Meeting on February 22nd for further consideration and action.

VI. HEAR GENERAL MANAGER, ATTORNEY, DIRECTORS

There were no additional comments.

VII. ADJOURNMENT: Meeting adjourned at 10:10 p.m.

CHAIRMAN

ATTEST:

SECRETARY