

MINUTES OF SPECIAL MEETING OF KISSIMMEE UTILITY AUTHORITY HELD
WEDNESDAY, APRIL 5, 1995 AT 6:00 PM, BOARD ROOM, ADMINISTRATION
BUILDING, 1701 W. CARROLL STREET, KISSIMMEE, FLORIDA

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

- A. **MEETING CALLED TO ORDER** at 6:10 p.m. by Acting Chairman Walter.
- B. **COOPERS & LYBRAND PRESENTATION - ELECTRIC UTILITY INDUSTRY TRENDS**

A brief introduction was made by Mr. Mike Barrett, Partner with Coopers & Lybrand, External Auditors for KUA. The reason for this presentation was due to the fact that there seemed to be questions from the Board over time as to what's going on in the industry and how KUA is positioned. This discussion would give a view as to what's going on in the country, how other utilities are reacting to competition and what they are doing in this respect.

Mr. Gerry Keenan, Managing Director of the Utilities Strategic Planning Group of Coopers & Lybrand, gave a comprehensive presentation on the electric utility industry trends that may affect KUA in the years ahead. Mr. Keenan distributed copies of the overheads he used to back up his presentation on numerous categories.

Mr. Keenan gave some background information on where we are, how we got here from the late '70s, what's happening in the electric business and what the trends are nationwide. He touched on information technology and those things of particular interest to municipal utilities concerning planning, etc. He talked on how the Energy Policy Act of 1992 affected the industry, the competition taking place in the California electric market, and actions that other utilities are taking to position themselves in our changing environment.

Discussions ensued and questions by members were responded to by the presenters.

Mr. Keenan stated that the Energy Policy Act had set the stage and framework for a competitive market at the wholesale level for electricity. It requires utilities to have transmission, to transmit electricity, it recognizes that there is a generation market separate and apart from the utility market through the creation of electric wholesale generators, and it realizes that the important thing is not who has the assets but who has market power. The market power is not in the ownership of generation, but in the ownership of transmission. He elaborated further on the intricacies of transmission access. What FERC (Federal Energy Regulatory Commission) is in the process of doing is making the transmission system a common carrier network allowing us to access suppliers and allow buyers to access us, which was uncommon in the past.

Parts of the overview covered pricing and wheeling, and that California has started to draft an order on how they are going to restructure the retail wheeling. Mr. Keenan stated that rates are 50% higher in California than the national average. FERC has not allowed the requirement of retail wheeling, leaving the issue as to whether or not retail wheeling can occur to the individual states, some of whom are actively pursuing this while others are not.

Mr. Keenan stated municipal; like KUA have more options and alternatives than before, making their positions stronger in figuring out how to best serve the needs of their customers in the future.

At the request of Mr. Welsh, Mr. Keenan explained the terms of futures used as hedging mechanisms, derivatives, risk-taking, etc., used as financial instruments.

Director Bobroff questioned Mr. Keenan's mention of Johnson Controllers selling electricity in shopping centers and what can they offer that the utility itself can offer. Mr. Keenan stated that Johnson Controllers manages the whole provision of the energy within the shopping center--it guarantees comfort levels, maintenance, and replaces capital equipment. If utilities undertook such a diversification, they must be willing to do these things for customers. Going into business with telephone companies and television companies are choices utilities must make, just as customers do. Customers buy price, quality, reliability and service.

Mr. Keenan covered the repositioning of utilities in the marketplace, utility planning and operations, improving their core business, the transition from being a commodity producer to an energy service company. Lastly, Mr. Keenan emphasized utility organization and operation. Times change and technology continually changes. Mr. Barrett added that utilities can capture costs by doing things in-house rather than using outside sources and bids.

Some utilities with flexible personnel policies allow for rewards to people who perform very well, making employees more accountable and giving decision-making and say to employees. One utility he mentioned uses teams in Customer Service who make decisions and credit arrangements, etc., which used to be the responsibility of management personnel. Thus, customers and concerns are handled more efficiently by avoiding layers of management, employees are more accountable and their performance is seen in their paycheck as a bonus based on how well the corporation or their department does against certain goals. One company also gives their customer service reps the right to cut a check with a \$250 limit for customers, e.g., for minor damage claims, thereby avoiding long delays and making for a satisfied customer.

In conclusion, Mr. Keenan emphasized the future role for municipal utilities, that they must be ready to reevaluate and change strategy as market and customer demands change, and benchmarking themselves against competitors.

Director Bobroff said he heard Mr. Keenan speak in two directions and felt somewhat confused. He spoke to the Board, stating he heard the speaker mention "looking into other services", a key word of his message to the Board at the previous meeting. He feels that in order to maintain competitive rates, or lower rates, we should be looking around for affiliated businesses we could legally go into to add to our profit (income) so we can support equal or lower rates in the future. That Mr. Keenan then stated we should stick with what we are doing and what we do best.

Director Bobroff asked what percent of profit a public utility should look for.

Mr. Keenan stated we have the legal requirement to maintain our coverage ratios, depending on whether a utility goes into the bond market. You would want about a 2 or even higher to balance the insurance requirements against the bond rating to get the best interest rates. Not going to the bond market you could have a 1.5 or 1.6 covered ratio, still producing enough revenue to cover a utility's needs. Discussion continued.

Director Bobroff inquired what we should do in the event of a catastrophe, how would we be covered. He felt Coopers & Lybrand should provide KUA some guidance. Director Bobroff felt we should go into related businesses, within our Charter, so that we can have additional income from other sources to maintain or lower our rates to our customers. He asked if this fits in with other services. He felt Mr. Keenan contradicted himself in this. Mr. Keenan answered his questions.

Director Bobroff pointedly asked if we should invest in an industrial park. Mr. Keenan stated other utilities had done so and in most instances failed in their endeavors. Mr. Keenan said the question is, we're looking at what's the return we're getting in our business? The flipside is, what's the risk? He felt KUA is pretty well positioned. Mr. Keenan stated that an exception is Tampa Electric Company (TECO) which diversified, by managing risk, by going into the coal transportation business and they made money. He felt utilities should focus on their core business. Director Bobroff stated that this was a very conservative point of view.

Brief discussion followed on the pros and cons of investing in an industrial park--the Board's aversion to risk, the investment, etc. In terms of purchasing property, Mr. Welsh stated that capacity planning is the key to success.

Director Lowenstein saw this as "marketing". The buying and selling of services properly.

Mr. Keenan and Mr. Barrett were thanked for a well-presented, informative presentation.

The meeting recessed at 8:10 for ten minutes.

C. RESOLUTION 95-3 - REDESIGNATION OF CAPITAL PROJECTS FUNDED FROM THE BOND PROCEEDS

Motion by Director Guthrie to approve Resolution 95-3, as submitted in the Agenda packet. Seconded by Director Lowenstein.

**Motion carried 4 - 0
Chairman Gant absent**

D. OTHER - No comments

E. EAR GENERAL MANAGER, ATTORNEY, DIRECTORS

GENERAL MANAGER - No comments

ATTORNEY - No comments

DIRECTORS

Acting Chairman Walter addressed the fact that Attorney Ed Brinson has been an outstanding citizen to this community, that he has served this Board tremendously over the years and that he should be acknowledged in some way for his years of dedicated service. He said that to show our appreciation for such service we might dedicate the new Board Room (third floor) in his honor. The members thought this was an excellent idea.

This dedication is to be a surprise and is unbeknownst to Attorney Brinson until the appropriate time.

Motion by Director Lowenstein to dedicate the new RUA Board Room (third floor) of the Administration Building to Attorney Edward Brinson. Seconded by Director Bobroff.

Mr. Welsh asked that the motion include approval of the appropriate arrangements to be made concerning this special occasion. The Board approved this as part of the motion.

**Motion carried 4 - 0
Chairman Gant absent**

F. **ADJOURNMENT**: Meeting adjourned at 8:20 p.m.

ATTEST:



SECRETARY



CHAIRMAN