

MINUTES OF SPECIAL MEETING OF KISSIMMEE UTILITY AUTHORITY, HELD
WEDNESDAY, MARCH 5, 1997 AT 6:00 PM, BRINSON BOARD ROOM,
ADMINISTRATION BUILDING, 1701 W. CARROLL STREET, KISSIMMEE, FLORIDA

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

A. MEETING CALLED TO ORDER at 6:05 p.m. by Chairman Hord.

B. TEN YEAR PLAN

1. INTRODUCTION AND OVERVIEW

Mr. Welsh stated the Ten Year Plan was worked on by each department in complete detail. A few highlights of this plan are projected rate increases in 1998, 1999 and 2000 of 3%, 2% and 2% respectively, the hiring of a Marketing Manager and projected capital dollars for a nominal Cane Island 3.

Mr. Welsh said we have to decide what our best option is - Cane Island 3 versus a partnering with Florida Power Corporation for Polk County or Hines Unit 2. There has been some strategic planning done on this process from the standpoint of deregulation and competition. Mr. Welsh said the classical planning works and has worked well under classical situations. Unfortunately, we do not have classical situations anymore and things have to be looked at in a different way. Mr. Welsh said in today's perspective future there might be extreme competition where the customer base could be eroded 40-50%, so we need to search for a more robust and flexible plan to meet that future. Mr. Welsh said we do not know if deregulation is coming or when it is coming. If deregulation is not coming, then the classical means work just fine and if deregulation is coming, KUA expects to be there competing strong and hard. Mr. Welsh stated flexibility means the ability to have capacity and energy so if the load's not there, maybe there is something we can do about this capacity and energy and it's not sitting there in fixed costs. Mr. Welsh said the construction of Cane Island 3 or Polk County 2 does not have a lot of flexibility. Mr. Welsh stated we have the opportunity at this point to strategically plan our flexibility so KUA does not get left high and dry in an over-capacity situation and we don't have a market for it. Mr. Welsh said while Cane Island 3 is in the Ten Year Plan, we are looking very heavily at things that are much more flexible such as purchase power contracts.

Director Lowenstein said in a time of uncertainty and we are not sure what direction we should go in, short and long-term contracts are the way we should go. They are a lot of work and there is tremendous initiative involved, but they work. Director Lowenstein stated he would rather buy it than build it.

Director Ralston stated it is a good idea to keep our options open as long as we can, especially with all the uncertainties.

Chairman Hord stated he agreed with Directors Lowenstein and Ralston. Chairman Hord said everybody is becoming more and more cost conscious and the name of the game right now is trying to gain customer base. Chairman Hord stated we do have to go back to some flexibility and some short-term contracts and we all know it will cost a bit more, but it doesn't bring debt service with it.

Mr. Welsh said he has had discussions with FMPA, our partners in Cane Island, to see how this might affect them and FMPA is okay with our decision.

Mr. Welsh said KUA has looked out until 2002 and we have about 97% of our demand in fixed obligations without doing anything at Cane Island. Mr. Welsh said if things do change, KUA could lose 25, 35 or 45% of our customer base and under this circumstance he does not want to add another 125 MW of debt service in firm capacity that KUA may be stuck with. Mr. Welsh stated flexibility makes KUA work well financially under a variety of situations under competition, even those which through severe competition we lose a large portion of our customer base.

Director Lowenstein asked if OUC (Orlando Utilities Commission) has additional purchase power available to us if needed. Mr. Welsh said KUA is going out for an RFP (Request for Proposal) right now and OUC will probably be one of the respondents. Mr. Ben Sharma, Director of Power Supply, stated KUA signed a contract with OUC about six months ago and it ends in the year 2000, but there is a clause in that agreement that states beyond 2000 KUA has the right to request an extension if OUC has the capacity. Mr. Welsh said we are going out with an RFP now and there will probably be responses from thirty different entities.

It was the consensus of the Board that KUA get a little more loose in terms of going for flexibility in terms of future power supply arrangements as opposed to more fixed cost items.

2. FINANCIAL HIGHLIGHTS

Mr. Joe Hostetler, Director of Finance, stated back in April of 1992 KUA reduced the overall rates by an average of 15% to provide temporary rate relief to stimulate the economy and attract industry. At that time KUA also revised the fiscal policy and Mr. Hostetler said KUA was able to do this because as a fiscal policy it was changed from a ~~As~~ pay as you go philosophy to a financed or debt related policy. Mr. Hostetler said there also was a higher level of sales during that timeframe than we've realized in the last several years. Also, part of the bond proceeds were used to pay for the debt during construction which prior to that we had not done.

Mr. Hostetler stated there is a projected 3% increase to go into effect April 1, 1998; another 2% in 1999; and another 2% in 2000. Mr. Hostetler said we need these because fiscal year 1998 will be the first year that all interest payments from the Series 1993 bond issue will have to be paid from current revenues. These interest payments were previously paid from the capitalized interest. In addition, a bond issue is projected in fiscal year 2000 for the construction of the Employees Substation and Cane Island 3. Due to the increased interest costs in fiscal year 1998, the projected bond issue in fiscal year 2000 and a philosophy to phase in smaller rate increases versus a large increase we recommend these rate increases. Mr. Hostetler said with no rate increases we would have negative reinvested earnings beginning in the year 2000 and prior to that would be drawing down our reserve future capital outlay cash reserves.

Chairman Hord asked if any other percentages could be used for the projected rate increases. Mr. Hostetler said there are different possibilities and the percentages could be 2% or 2.5% if we could keep costs under control, more than what we otherwise could and realize more growth. Mr. Welsh stated that one thing these early-on increases do is they get us in a position to be more flexible and more competitive. Chairman Hord asked when the Board would need to make a decision on the rate increases. Mr. Welsh said it would be in the budget in May and also would come back to the Board in January 1998 for a final vote.

Director Guthrie stated he was not comfortable earmarking rate increases for something we don't know what we're doing yet. Director Guthrie said we may have a much better idea when we get the RFP's back to see what our direction is going to be. If it takes rate increases, Director Guthrie said certainly they would be voted in, but until we get a much clearer picture he is not prepared to go ahead with the 3%, 2%, 2%.

Chairman Hord asked what it would mean at this point if the Board said no to the rate increase for 1998. Mr. Welsh said he would strongly recommend the Board consider an increase in 1998. Mr. Welsh said there is some flexibility in the timing of this increase, but as we are coming up on a deregulated environment, is this the time to be pushing off to a later date something that is needed. That later date may be at a time when we cannot implement it because we are in a situation where the competition won't stand it and then we would not be able to compete. Mr. Welsh said the timing on it now is somewhat strategic.

Director Guthrie stated if there is no rate increase KUA does not go negative until 2000. Mr. Welsh said that's the reason he said there is some flexibility in our timing. The Board can push this increase off, but strategically Mr. Welsh recommends the Board implements the increase at this time and not push it off to the last minute. Director Guthrie said he does not agree with the philosophy of raise the prices now, so we can lower them later. Director Guthrie said he thinks KUA should be running as lean as it can, and if rates have to be lowered it would be looked at at that time. Director Guthrie said he does not think the public is going to stand for raising the rates.

Chairman Hord stated the Board will know a lot more nine months from now as to what their decision should be. Chairman Hord asked staff to do the budget as if there were no rate increases and keep the budget mean and lean. Chairman Hord said he wants this brought back to the Board in January 1998 for a final decision.

Chairman Hord said to sum all this up we are going with Case B for the budget planning and staff will keep the Board apprised of any pertinent information.

Mr. Hostetler then highlighted KUA's Summary of Outstanding Debt and the financial outlook. Mr. Hostetler showed a slide on Professional and Contractual which includes mostly purchase power. Chairman Hord would like to see this separated in the future and be called Purchase Power. Mr. Hostetler said another area that should probably be separated is Materials and Supplies which includes mostly fuel.

The meeting recessed at 7:30 p.m. for about ten minutes.

3. PERSONNEL OVERVIEW

Mr. Neville Turner, Director of Personnel & Risk Management, highlighted the organizational chart and staff requirements for the Ten Year Plan. Mr. Turner recommended a 3% increase for planning purposes for the non-bargaining unit personnel. Mr. Turner said this would come back to the Board in May with the updated Consumer Price Index and the results of the salary survey.

It was the consensus of the Board to approve a 3% increase for budget planning purposes only and the final decision will be made by the Board at a later time.

4. POWER SUPPLY

Mr. Ben Sharma, Director of Power Supply, stated there are six additional positions required between now and the year 2001. Mr. Sharma said a lot of this depends on whether or not we build Cane Island 3 and this would be brought back to the Board at a later date.

Director Lowenstein asked if it would be conceivable that a contract worker be feasible in the future rather than a permanent position. Mr. Sharma said that is one of the possibilities that will be looked at to see if it is cost effective.

5. INFORMATION SYSTEMS

Mr. Dennis Wick, Director of Information Systems, stated there are no additional personnel requirements. Mr. Wick said at the end of last fiscal year an Information Technology Strategic Plan was brought before the Board that was put together by all the

departments in KUA. Mr. Wick said he would like to tie his capital spending for fiscal year 1998 and the future to that Strategic Plan. The highlights that came out of that Plan, that are covered in the capital area, are the need to build a solid infrastructure, a need for data banks that provide easy collection and access to information from all sources and using our employees. Mr. Wick said all of this will give KUA a competitive edge.

6. TRANSMISSION & DISTRIBUTION

Mr. Ken Lackey, Director of Transmission & Distribution, stated there are four additional positions required between now and the year 2000.

Director Guthrie stated on page III-29 under Performance Measurements #1 it reads "By the year 2000, reduce the Distribution O & M expense per retail customer to be more in line with the national average." Director Guthrie said instead of the wording "More in line with" there should be a fixed number there. Mr. Welsh said the verbiage will be changed to "More in line with the national average as depicted in the graph below".

7. ENGINEERING

Mr. Ken Davis, Director of Engineering, stated there is one additional position required between now and the year 2000.

Chairman Hord questioned why KUA has to relocate the line on Pleasant Hill Road at its own expense. Mr. Welsh said because it is in the county's right-of-way and KUA was told if it ever had to be moved in the future, KUA would move the line at its own expense. Mr. Davis said to go out and buy a section of right-of-way for a couple of miles can cost far more than relocating the line. Mr. Davis said there is a starting budget this year of \$250,000 and in subsequent years there is \$50,000 budgeted per year especially for projects such as Pleasant Hill Road. Mr. Davis said we would probably not use all of the \$250,000 and it would be rolled over and built up as we go along.

Director Guthrie stated here again KUA is tying up its money and this fund should be looked at every year.

8. CUSTOMER RELATIONS

Ms. Chris Beck, Director of Customer Relations, stated there are some staffing changes in this Ten Year Plan versus the past Ten Year Plan. Ms. Beck has been able to postpone eleven different positions between the years 1998 and 2006. Ms. Beck said this does not mean get rid of, but has been able to postpone basically due to management and the slow down in our growth. This savings equates to just over \$500,000.

Ms. Beck said she is also looking at part-time positions versus full-time positions. The first position she is starting with is a Cashiering position, which will become two part-time positions.

Director Lowenstein asked what credit cards KUA takes? Mr. Mike Geraghty, Manager of Customer Financial Services, said KUA takes Visa, Discover and Master Card. Director Lowenstein asked if KUA takes debit cards? Mr. Geraghty said he has looked into it, but it would be more expensive than the other credit cards. If the demand increases, it is something KUA would definitely look at. Director Lowenstein said taking debit cards would be very useful and is not that expensive because KUA can add this equipment to what it already has. Mr. Geraghty will be meeting with Director Lowenstein to look into this.

Chairman Hord asked how many times this year was load management used. Mr. Sharma said it has not been used at all except for some testing. Once KUA got into the power pool, we have not had capacity scarcity at all.

Director Lowenstein asked if load management was operational to use. Mr. Sharma said yes, it is operational.

9. FINANCE

Mr. Joe Hostetler, Director of Finance, stated there is one addition in staffing and that is the Manager of Marketing. This position will be budgeted under the Finance department, but will report to the President & General Manager.

There were no questions on Department 17.

10. PERSONNEL & RISK MANAGEMENT

Mr. Neville Turner, Director of Personnel & Risk Management, stated there is one additional position required between now and the year 1999.

11. MATERIALS MANAGEMENT

Mr. Jim Tillman, Director of Materials Management, stated there are one and a half additional positions required between now and the year 2001. Mr. Tillman said this would be for a full-time Buyer and a part-time clerical position.

Chairman Hord asked when the 5000 lb. 1989 forklift is replaced, does KUA auction the old one off or trade it off. Mr. Tillman said KUA would probably try to auction it off.

12. CAPITAL PROJECTS

The capital projects were covered under each individual department presentation.

Director Guthrie asked when the units at Hansel will be retired because there is no output shown in the budget for after 2002. Mr. Sharma stated there is a possibility that units #8 and #14 may have to be retired before 2006. There is no retirement schedule projected for any of the units. Director Guthrie said there is no fuel cost projected past 1999 for #8 and nothing projected past 2003 for #14. Mr. Welsh said this is probably a computer inaccuracy in its modeling technique.

Chairman Hord said at one time KUA looked into putting a new, modern diesel unit at Hansel. Mr. Sharma said this was looked at internally, but it did not make any sense because it would take too long to recoup the initial cost if it was not run very often.

C. HEAR GENERAL MANAGER, ATTORNEY, DIRECTORS

GENERAL MANAGER - No comments.

ATTORNEY - No comments.

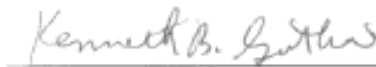
DIRECTORS

Chairman Hord thanked the staff for all their efforts on the Ten Year Plan.

Director Guthrie stated the job that staff does on the Ten


CHAIRMAN

ATTEST:


SECRETARY

Year Plan amazes him every year.

D. ADJOURNMENT: Meeting adjourned at 9:40 p.m.