

MINUTES FROM A REGULAR MEETING AND PUBLIC BUDGET HEARING OF THE UTILITY BOARD OF THE CITY OF KEY WEST, FLORIDA, HELD AT 5:00 P.M. ON FEBRUARY 14, 2007 AT THE WILLIAM ARNOLD SERVICE BUILDING LOCATED AT 1001 JAMES STREET, KEY WEST, FLORIDA

The above referenced meeting of the Utility Board of the City of Key West, Florida, convened at 5:00 P.M., on the above date and location and was called to order by Chairman Padron. Present and answering to the roll call were Utility Board members: Peter Batty, Charles Bradford, Lou Hernandez, Mona Clark and Robert Padron. Also present at the meeting: Lynne Tejeda, General Manager & CEO; Nathan Eden, Board Attorney; Jack Wetzler, Assistant General Manager & CFO; Suzanne Greager, Director of Suzanne Greager, Director of Management Services; Alex Tejeda, Customer Services Director; Dale Finigan, Director of Engineering/Control Center; Dan Cassel, Director of Generation; Stan Rzas, Compliance Administrator; and David Price, Director of T&D.

Chairman Padron asked if there were any changes or additions to the agenda.

Mrs. Tejeda responded that Item #7j - Approve Resolution #747 Authorizing Participation in the State Board of Administration's Investment Pool needs to be deleted from the agenda.

AGENDA ITEM #4 – RECOGNITION – 5-STAR AWARD-KEY WEST CHAMBER OF COMMERCE

Mrs. Tejeda told the Board that Keys Energy Services once again received the 5-Star Award from the Key West Chamber of Commerce in recognition for KEYS' active role in supporting Monroe County Schools. During the 2006-2007 school year KEYS donated \$100 to the Key West High School Scholarship Fund, \$100 to the Teacher Fellowship Program, \$550 to the Teacher Recognition Program and adopted two classrooms (Poinciana Elementary and Key West High School) at \$500 each. Additionally, KEYS assisted the school district in establishing the Career Apprenticeship Program; participated in numerous career and truck days; and sponsored the annual calendar art contest.

Mr. Bradford commented that the award is the Tom Sawyer Award.

Chairman Padron inquired on the progress of the Apprenticeship Program.

Mrs. Tejeda responded that interest seems to have diminished a bit this year compared to last year. However, it is anticipated that it will get better next year as some of the problems at the High School have been ironed out.

AGENDA ITEM #5 - INFORMATIONAL ITEMS

Power Supply Report

Mr. Dale Finigan reported that since the last Utility Board meeting there have been no transmission outages, one distribution outage and seven reclosure outages.

Generation Report

Mr. Dan Cassel reported that there is currently 70 MWS available for service. The medium speed diesels are in a scheduled outage for work being conducted on the smoke stack and installing new expansion joints on MSD #2. They are scheduled to be back in service this coming Friday evening. CT #2 was test run this afternoon and the vibration levels are higher than what staff would like to see, Florida Municipal Power Agency has been informed on the test results. Staff is waiting to hear from FMPA for a decision on how to proceed.

Mr. Cassel continued to say that CT#3 is out of service. The new pad-mount transformer has been installed; now waiting for parts for mechanical seal for the water pump. It is anticipated that the unit will be test run next week.

Mrs. Tejeda informed the Board as to why Item #7j - Approve Resolution #747 Authorizing Participation in the State Board of Administration's Investment Pool was deleted from the agenda. She stated that the bond proceeds have been parked at First State Bank since October 31, 2006. Staff has been waiting to see if MBIA, the insurance provider, will permit the money to be kept at First State Bank. Late last week bond counsel, Robert Freeman, called and informed that First State Bank is not acceptable. Mr. Freeman indicated a certain level of urgency to move the monies from First State Bank into one of the approved depositories. One of the approved financial institutions is the State Board of Administration (SBA) where the money can be placed. Staff thought a resolution would be needed to open an account at SBA. Upon staff's review of resolutions it was discovered that there are ten accounts open with SBA that were never formally closed out. Therefore, staff is able to move the money to SBA.

Mrs. Tejeda proceeded to say that staff is still working with bond counsel to determine if the monies should stay with SBA permanently or if a financial bid would be better to determine where the monies should be placed.

Mr. Hernandez asked who SBA was.

Mrs. Tejada responded that SBA is an investment pool within the State of Florida.

Mr. Batty inquired on the interest rate that will be earned with SBA.

Mr. Wetzler responded that is approximately 5% and that it does fluctuate.

Mr. Bradford asked if the \$42 million was in repurchase agreements.

Mr. Wetzler responded that the money was in a savings account.

Chairman Padron asked if there were any other funds in SBA accounts.

Mrs. Tejada responded that all monies had been removed when First State Bank, through the bank services agreement, said they could do better than SBA.

AGENDA ITEM # 6 – CONSENT AGENDA

- a) Approval of Minutes - Regular Meeting – January 24, 2007
- b) Approve Disbursements Report
- c) Approve Professional Services Agreement with R.W. Beck, Inc. for the Preparation of the Quinquennial Report for the Five Years Ending September 30, 2006
- d) Award Bid - Power Transformer Inert Air Systems Retrofit – Bid #11-07 and Approve Budget Amendment #07-12
- e) Award Bid - Upgrade Emissions Monitoring Equipment – Bid #21-07
- f) Award Bid - Remanufacture of Wagner 44 MVA Transformer – Bid #07-07
- g) Reject Bid - Fiber Optic Wide Area Network – Bid #07-06
- h) Reject Bid - Unit Exchange Power Packs & Turbocharger Replacement for Stock Island High Speed Diesel #2 – Bid #17-07

Chairman Padron stated that he would like to pull Agenda Item 7c - Approve Professional Services Agreement with R.W. Beck, Inc. for the Preparation of the Quinquennial Report for the Five Years Ending September 30, 2006.

Motion was made by Ms. Clark and seconded by Mr. Bradford to approve the Consent Agenda with the exception of Item 7c. There being no objections, the motion passed unanimously.

Chairman Padron stated that he had pulled Item 7c due to the fact that there are three new Board members who may not be familiar with the Quinquennial Report. He stated that the Quinquennial Report is required by bond covenants. The Engineer of Record prepares this report every 5 years and it is sent to the bond holders.

Motion was made by Mr. Batty and seconded by Ms. Clark to approve Item 7j - Approve Professional Services Agreement with R.W. Beck, Inc. for the Preparation of the Quinquennial Report for the Five Years Ending September 30, 2006. There being no objections, the motion passed unanimously.

AGENDA ITEM #7 – ACTION ITEMS

Item #7a – Approve Financial Audit and Comprehensive Annual Financial Report (CAFR) for Fiscal Year Ended September 30, 2006

Chairman Padron stated that the Audit Committee presented the Financial Audit and Comprehensive Annual Financial Report to the Board at the January 24, 2007 Utility Board meeting.

Chairman Padron asked Mr. John Parks from Oropeza and Parks if he had any comments regarding the Audit and Report.

Mr. Parks stated that he had no additional comments other than to thank the Board for engaging his organization and staff for their cooperation during the audit. It was a good audit and an unqualified opinion has been rendered.

There being no further discussion motion was made by Mr. Bradford and seconded by Mr. Batty to approve Financial Audit and Comprehensive Annual Financial Report (CAFR) for Fiscal Year Ended September 30, 2006. The motion passed unanimously.

Item 7b – Approve Payment to City of Key West for Fiscal Year Ended September 30, 2006.

Mrs. Tejada stated that on an annual basis Keys Energy Services returns an investment to the City of Key West for their equity in the utility. Based on the financial report the amount being provided to the City is \$341,279.

Mrs. Tejada commented that a resolution was adopted in 1999 establishing the method of calculation to be used to determine the return on the City's equity in the utility. This year 1% of the gross revenues derived from sales of electricity at retail, exclusive of power cost revenues, was used. In-kind services to the City was calculated by staff and that comes to a total of \$364,415.77.

Motion was made by Mr. Hernandez and seconded by Ms. Clark to approve payment to City of Key West for Fiscal Year Ended September 30, 2006 in the amount of \$341,279.

Mr. Batty asked if the difference between the actual amount and the budgeted amount was due to the decrease in sales.

Mrs. Tejada responded that the budgeted amount was derived for 2007 it is actually based on what is being done this year.

There being no further discussion the motion passed unanimously.

Item 7c – Adopt “Keys Energy Services Fiber Optics Network Study” and Authorize Staff to proceed with Network Design

Mrs. Tejada referred the Board to the study and recommendation by Black & Veatch regarding KEYS building its own fiber optics network to connect all of its facilities. She continued to say that on January 17, 2007, Mr. Charles Hill of Black & Veatch presented the Assessment of Network Alternatives study to the Board during a workshop meeting. The installation of a KEYS' owned fiber network is a cost effective option compared to contracting with local communication companies to provide network services. Earlier this evening the Board rejected Bid #07-06 Fiber Optic Wide Area Network for bandwidth from Comcast and BellSouth.

Mrs. Tejada stated that staff is seeking approval to accept the Black & Veatch Assessment of Network Alternatives study and recommendation; and authorize staff to proceed with the design and bid process for the development of a “Fiber Optic Backbone Network” within KEYS' service territory to interconnect to Florida Keys Electric Cooperative's Marathon Substation.

Motion was made by Mr. Batty and seconded by Mr. Hernandez to Adopt “Keys Energy Services Fiber Optics Network Study” and authorize Staff to proceed with Network Design.

Mr. Batty asked if Florida Keys Electric Cooperative has been contacted to let them know that KEYS is pursuing this project.

Mr. Finigan responded that a quarterly meeting is scheduled in two weeks with Florida Keys Electric Cooperative and it is an agenda item.

Mr. Hernandez expressed that he was extremely pleased that the fiber optics project was finally underway. He commended staff.

Chairman Padron inquired if Black & Veatch will do the design.

Mrs. Tejada responded that staff is working with Black & Veatch and a proposal is expected next week.

Chairman Padron also inquired on the Summary Cost Table on page 6 of the Black & Veatch Study.

Mrs. Tejada informed that the numbers are inflationary numbers assuming the same amount of service.

There being no further discussion the roll was called and the following vote was recorded:

Mr. Batty	Yes
Mr. Bradford	Yes
Ms. Clark	Yes
Mr. Hernandez	Yes
Chairman Padron	Yes

Item #7d Approve Emergency Purchase for Power Packs and Associated Parts for the Stock Island High Speed Diesel #2 Overhaul and Approve Budget Amendment #07-09

Mrs. Tejada stated that on January 17, 2007 KEYS received and opened one response to Bid #17-07 for the Unit Exchange Power Packs and Turbo Charger Replacement for SIHSD #2. The bid did not comply to bid specifications. Currently there is not enough time to go out for competitive bids again and have the work completed by Hurricane Season. Due to this timeframe staff requested quotes, for the power pack specifically, and two responses were received. The low quote is from Hatch & Kirk in the amount of \$40,770. Staff recommends that the Board award the emergency purchase to Hatch & Kirk in the amount of \$40,770.00 for the power packs and associated parts for SIHSD #2 overhaul and in addition utilize Cotter Turbine Services under the previous unit price contract, to perform the labor.

Motion was made by Mr. Hernandez and seconded by Mr. Hernandez to Approve Emergency Purchase to **Hatch & Kirk in the amount of \$40,770.00** for the Power Packs and Associated Parts for the Stock Island High Speed Diesel #2 Overhaul and Approve Budget Amendment #07-09.

Chairman Padron asked how the price of \$40,770 compared with prices in the past.

Mr. Cassel responded that it is a competitive price.

There being no further discussion the motion passed unanimously.

Item #7e – Approve Emergency Purchase for Station Service Batteries for the Medium Speed Diesels and the Synchronous Condenser

Mrs. Tejada stated that in early January, as a result of requests from KEYS' insurance companies, load testing was conducted on all station service batteries for the

generating units and the synchronous condenser. The load test indicated that the batteries for the synchronous condenser, medium speed diesels and the combustion turbine #1 have reached the end of their life and require replacement. Due to the nine week lead time on these batteries and the goal of having the units 100% available for the Hurricane Season, staff is requesting this purchase be considered an emergency purchase. Staff utilized the informal quote process and received two bids. Alpine Power Systems was the lowest quote. Staff is recommending that the Board Award Emergency Purchase to Alpine Power Systems in the amount of \$49,403.00 for the Station Service Batteries. This includes 121 batteries, new racks, labor to install and disposal of the old batteries.

Motion was made by Mr. Bradford and seconded by Mr. Batty to award emergency purchase to **Alpine Power Systems, in the amount of \$49,403.00** for the Station Service Batteries.

Under discussion Mr. Batty asked if staff has a long-term plan for VAR support for the synchronous condenser.

Mrs. Tejada stated that staff is researching that issue. None of the Engineers of Record can provide an estimate on the life of the synchronous condenser. The good news is that the Florida Municipal Power Agency has indicated that they will take over the synchronous condenser as part of their responsibility when one-utility concept is reached.

Chairman Padron commented that the synchronous condenser is an FMPA issue even prior to the one-utility concept being reached. KEYS has a contract with FMPA to furnish all the power. It is FMPA's responsibility to get the power to KEYS metering point.

Mr. Batty made an inquiry regarding the cost allocation of maintenance.

Mrs. Tejada stated that the cost allocation has not been changed but staff has reviewed how it is being applied without making any changes. The increase has been substantial.

A brief discussion ensued regarding FMPA's responsibility regarding the synchronous condenser.

Mrs. Tejada commented that KEYS' goal is to enter into the one-utility concept by October 1, 2007 and have been trying to set up some meetings. The first meeting, since a year in a half to two years ago, is scheduled this Friday with FMPA to try to figure out what direction to go with one utility. They have expressed a willingness to open dialogue again. Kissimmee Utilities has also indicated their desire to enter into a one-utility concept. The goal at the Friday meeting is to arrive at a timeframe for the

one-utility concept. However, they have expressed that October 1, 2007 is too ambitious.

After some continued discussion on VAR support and one-utility concept the motion passed unanimously.

Item 7f – Approve Sole-Source Contract with ProEnergy Services to Install, Setup and train on Maximo and Approve Budget Amendment #07-17

Mrs. Tejada stated that at the end of 2006, the Maximo Program was installed by FMPA. FMPA has determined through GE's recommendation, that ProEnergy Services is the best vendor for installation, setup, and training for the LM6000. The Maximo system is web-based maintenance software which provides the ability to schedule and track preventative maintenance and corrective maintenance work orders. KEYS is currently using the Impulse System which is inadequate and inefficient. FMPA has requested that ProEnergy include FMPA owned combustion turbines #2 & #3 at a cost of \$20,000 which will be reimbursed by FMPA.

Mrs. Tejada stated that staff recommends that the Board award a Sole-Source Contract to ProEnergy Services in the amount of \$78,000 to install, setup and train on Maximo. FMPA will reimburse KEYS \$20,000 of the \$78,000 which leaves \$58,000 to be paid by KEYS.

Motion was made by Mr. Batty and seconded by Ms. Clark to Award a Sole-Source Contract with **ProEnergy Services in the amount of \$78,000** to install, setup and train on Maximo and Approve Budget Amendment #07-17.

Mr. Batty inquired on how staff was doing with the new employees and all the maintenance being conducted.

Mrs. Tejada responded that everything is moving along very well. Cotter Turbine is on site and is working towards getting KEYS up to speed. A lot of the new employees are working alongside of Cotter. Staff has also been talking to FMPA to assure that they are satisfied with what our staff is doing on their units. The progress is excellent.

Chairman Padron commented that Mr. John Stephens from ProEnergy was present if anyone had any questions.

Chairman Padron asked what the timeframe is for completion.

Mr. John Stephens responded that they are shooting for the end of April.

There being no further discussion the motion passed unanimously.

Item 7g – Award Bid Electrical Substation High Voltage Materials, Bid #02B-07

Mrs. Tejada stated that KEYS went out for competitive bids for a number of items for the electrical substation materials. Below is a summary of the vendors staff would recommend awarding to:

Vendor	Schedule # (item #) ¹	Total Award Amount
Wesco Distribution, Inc.	I (1-5), II (1-4)	\$4,088,382.00
Stewart C. Irby	I (6,7)	\$ 165,805.00
Utilicor	III (1,2)	\$ 347,860.00
RS Sales, Inc.	III (3,4)	\$ 160,400.00
Total Award		\$4,762,447.00

Mrs. Tejada informed the Board that a revised Agenda Item Summary was handed out prior to the Board meeting. The change was due to an indicator panel included in the specs and not included in the above table.

Motion was made by Mr. Hernandez and seconded by Mr. Bradford to award the purchase of Electrical Substation High Voltage Materials, Bid #02B-07, to **Wesco Distribution, Inc., Stewart C. Irby, Utilicor, and RS Sales, Inc.**, in accordance with the unit prices on Schedules I, II, and III, for quantities with an estimated cost of **\$4,762,447.00**, excluding taxes; their bids being the lowest cost and/or best bids complying with specifications.

Under discussion Mr. Hernandez inquired on the indicator panel that was added to the award amount.

Mrs. Tejada responded that it was an additional item that was in the bid response and the low bidder is still Wesco.

Chairman Padron brought up that the big ticket item is under Schedule II, power transformers. He stated that there are four transformers and asked where they will be placed.

Mr. Dale Finigan responded that two will go to Kennedy Drive Substation, one to the existing US1 Substation, and one will be for the new substation at the Stock Island property.

Mr. Batty asked what will be done with the old transformers.

Mr. Finigan stated that they will be surplus.

Chairman Padron referred to a previous item on the agenda, remanufacture of Wagner 44 MVA transformer. He stated that it is a significant lesser cost to remanufacture versus buying a new transformer. He asked if staff had considered remanufacturing the four transformers instead of buying new ones.

Mr. Finigan responded that capacity cannot be increased if the transformer is rewound.

Mr. Batty commented that the purchase of the transformers was coming from the bond issue and there was some concern that the monies can be used up in the time allocated. He asked if staff felt comfortable with the way the projects are progressing.

Mrs. Tejada responded that this Board packet is somewhat of an indication that things are moving along. The bid award for the electrical substation high voltage materials is a big award and the next item on the agenda, to award a bid for Electric Utility Distribution Class Concrete Poles is also another large item.

There being no further discussion the roll was called and the following vote was recorded:

Mr. Batty	Yes
Mr. Bradford	Yes
Ms. Clark	Yes
Mr. Hernandez	Yes
Chairman Padron	Yes

Item 7h – Award Bid – Electric Utility Distribution Class Concrete Poles, Bid #15B-07

Mrs. Tejada stated that this is a companion award that goes along with an item that was previously awarded to Osmose and Associated Diversified Services. Osmose is currently in the process of identifying wooden poles that need to be replaced. Diversified has been contracted to do the replacements of the poles. This bid is to purchase the concrete poles to be used for the replacements. It is expected that there will be a 32% failure rate which equates to 3,075 poles.

Mrs. Tejada stated that staff is recommending that the Board approve a contract with Utilities Structures, Inc. for concrete poles for the quoted unit prices. The entire project will occur over a five year period. KEYS plans to purchase approximately 615 poles per year. There are escalators built into the contract. The estimated cost for Year 1 is \$556,380.00 The estimated, total cost for the project is \$3,136,365.78

Motion was made by Mr. Hernandez and seconded by Mr. Bradford to Award the bid for Electric Utility Distribution Class Concrete Poles, Bid #15B-07 to **Utilities**

Structures, Inc, in accordance with the unit prices for an estimated five year contract of \$3,136,365.78, their bid being the lowest cost and/or best bid complying with the specifications.

Under discussion Mr. Hernandez asked if all of this work is achievable.

Mrs. Tejada responded that staff believes that it is achievable. She stated that there is a small crew here now and they will be ramping up. They will provide the crews necessary to get all the poles replaced.

Mr. Hernandez asked if the planning included the approaching hurricane season.

Mrs. Tejada stated that it is written in the bonds that if there is a Force Majeure issue the spending timeframe can be extended.

Mr. Batty asked if the pole inspection so far is indicative of the expected failure rate of 32%.

Mrs. Tejada stated that they have found less that what has been anticipated. They have just completed the Big Coppitt area and will proceed into Key West.

A brief discussion ensued on the type and size of the poles and the installation of the poles. Chairman Padron expressed that his main concern is on the size of the poles and how KEYS' customers will react to them. He also inquired on the easement issues.

Mr. Finigan responded that KEYS staff is working with the City on the easement issues. The issue is supposed to go before the City Commission within the next two months to try and get something resolved. The City needs to clear all the easements so the poles can be accessible. He stated that if the poles cannot be installed in the easement in the rear of the homes then they will be installed in the front. The Public Service Commission has ruled that if a pole is replaced or a new one is installed it has to be placed in an accessible location. This ruling will give KEYS some leverage.

Chairman Padron commented that it gives KEYS leverage but it will be a big public relations issue.

Mr. Batty asked if the homeowner will be responsible for the relocation of the weatherhead if necessary.

Mr. Finigan responded that who will pay for relocations of weatherheads is an open issue.

Mr. Batty asked if KEYS has the proper equipment to install the poles.

Mr. Finigan responded that Diversified Services is aware of the weight of the poles.

Mr. Batty stated that his concern is not with the contractor it is with KEYS' ability to be able to replace a pole if it is blown down.

Mr. Finigan stated that there may be cases where KEYS may have to rent equipment.

Mr. Eden stated that he has had several conversations with the City Attorney regarding the easement issues. The City Attorney's office needs to get direction from the City Commission on this issue.

Mr. Batty expressed that he is concerned that the City is going to defer responsibility of the easements and force KEYS to change the location of the poles which will put a load on KEYS' rate payers and they are not going to blame the City they will blame KEYS.

Chairman Padron commented that it is a tremendous public relations issue.

Mr. Batty stated that the City needs to be aware of what is going on and the decision they need to make.

Chairman Padron asked if aesthetics are being considered during the replacement of the poles.

Mr. Finigan stated that they were being considered.

The roll was called and the following vote was recorded:

Mr. Batty	Yes
Mr. Bradford	Yes
Ms. Clark	Yes
Mr. Hernandez	Yes
Chairman Padron	Yes

Item 7i – Award Bid – Generation Site Clean-up and Equipment Removal, Bid #20B-07

Mrs. Tejada stated that the Board recently declared certain properties in "Excess of KEYS Needs" and the equipment as surplus. The diesel units on Cudjoe Key and Big Pine Key were retired. As part of the Strategic Plan those properties are being cleaned up for future land use. KEYS went out on competitive bids to have equipment removed

from Cudjoe Key Property, Big Pine Key Property, Louisa Street Substation and the Stock Island Generating Facility.

Mrs. Tejada referred the Board to the attachment indicating that the removal of the contaminated soil is much higher than anticipated. The cost would be \$2.2 million for the two locations. Staff is recommending that this not be awarded this evening. It is not a budgeted item this year. There may be a remote opportunity for grant funding. Staff is not certain that KEYS will qualify for the grant. Staff is recommending that this be done next fiscal year when budgeting may be possible with the grant funding and the possible sale of the Cudjoe Key property will add to the funding. At this point staff is not ready to fund \$2.2 million to remove contaminated soil.

Mrs. Tejada continued to say that staff is ready to proceed with the removal of the equipment. She referred the Board to the bids that were received and listed below.

Vendor	Equipment Demolition and Removal Amount	Complies with Technical Specifications	Complies with General Terms & Conditions
Allied Recycling, Inc.	\$30,700.00	Yes	Yes
National Salvage & Service Corporation	\$271,820.00	Yes	Yes

Staff has double checked with Allied and they understand the scope of the work to be done and are willing to do it for \$30,700.

Motion was made by Mr. Hernandez and seconded by Ms. Clark to Award Bid for Generation Site Clean-up and Equipment Removal, Bid #20B-07, to **Allied Recycling, Inc.** per the unit prices **in the amount of \$30,700.00**, their bid being the lowest cost and/or best bid complying with specifications.

Under discussion Mr. Batty asked if they were a reputable business.

Mrs. Tejada stated that their references have been checked and they are a reputable business.

Chairman Padron asked if there were performance bonds on this.

Mrs. Tejada confirmed that there is.

There being no further discussion the motion passed unanimously.

OTHER BUSINESS

There being no further business to come before the Board the Regular Utility Board meeting of February 14, 2007 adjourned at 6:35 P.M.

APPROVED:

Robert R. Padron, Chairman

ATTEST:

Lynne E. Tejada, Secretary