

MINUTES FROM A REGULAR MEETING OF THE UTILITY BOARD OF THE CITY OF KEY WEST, FLORIDA, HELD AT 5:00 P.M. ON AUGUST 8, 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, Mona Clark, Lou Hernandez and Chairman Padron. Also present at the meeting: Lynne Tejeda, General Manager & CEO; Jack Wetzler, Assistant General Manager & CFO; Nathan Eden, Board Attorney; Suzanne Greager, Director of Management Services; Alex Tejeda, Customer Services Director; Dale Finigan, Director of Engineering/Control; and Stan Rzas, Compliance Administrator.

Chairman Padron asked if there were any changes to be made to the agenda, there were none.

At this time Chairman Padron recessed the Regular Utility Board meeting and opened the Public Hearing for the Fiscal Year 2008 Budget and Five-Year Financial Plan 2008-2012.

Mrs. Tejeda informed the Board that Mr. Wetzler will go through the changes that have been made since the Budget Workshop was held on July 25, 2007.

Mr. Wetzler proceeded to highlight what changes have been made. He referred the Board to the revenue section in their workbooks and stated that there are two large items that have changed. Power Cost Adjustment (PCA) revenues are \$1.4 million higher and that is due to Purchase Power Cost being higher. Subsequent to the workshop additional information was received from Florida Municipal Agency (FMPA) indicating that the energy rate projected for Fiscal 2008 will be higher as well as 2009. The Operations & Maintenance (O&M) has been increased and the PCA revenue has been increased which makes it a dollar for dollar flip. In addition, revenue has been reduced by \$1.3 million. The dollars budgeted preliminarily for the underground work has been taken out of capital and revenue. The reason being, that there is no firm timing for the underground projects. Staff prefers to handle it as budget amendments throughout the year.

Chairman Padron commented that at the Budget Workshop he had questioned the large amount budgeted for underground work.

Mr. Wetzler told the Board that the changes mentioned thus far have a negative effect on debt service coverage.

Mr. Wetzler proceeded to tell the Board that the next significant change is in O&M.

- Management Pay Plan - an estimated amount was put in the budget and now the actual salaries are in the budget.
- Purchase Power Costs - has been increased from \$63.9 million to \$65.3 million, which equates to \$58.65 per megawatt hour. This will be the estimated energy charge in Fiscal 2008 from FMPA.
- Steel Pole Painting - there was an error in the budget presented during the workshop: there was not enough money and it was listed under incorrect years. A correction has been made and there is \$50,000 budgeted in Fiscal 2008 and \$200,000 in Fiscal 2009.
- Training - some redundancy in training has been removed in the amount of \$50,000.
- Health Insurance Premium - no increase indicated for Fiscal 2008.

Mr. Wetzler moved on to the capital budget section in the budget and reviewed the following changes with the Board:

- Fiber - The previous budget amount was \$2.5 million and that has been changed to \$3.75 million of which \$1.6 million is for fiscal 2008.

Mr. Wetzler stated that the capital funding has not changed only the itemization of the projects. He informed the Board of the last major change:

- Budgeted Positions - There are 163 authorized positions and currently there are 158 positions being budgeted. The tree trimmer, general helper, Director of Generation and two apprentice positions are not being budgeted.

Chairman Padron stated that the Board had previously approved some additional positions in the Generation Department for a one-year term. He asked for an update on those positions.

Mrs. Tejada responded that there have been a couple of vacancies that have not been filled. Generation was one of the areas that had additional apprentices. When the apprentices were hired the number of staff increased so when vacancies came open for apprentices they were not filled. Staff reviews openings as they occur.

Chairman Padron stated that staff should keep a close watch on the number of positions.

Mr. Wetzler pointed out that in the overall Five-Year Financial Plan a reduction of Generation staff is planned year by year.

Chairman Padron stated that FMPA recommended the number of positions needed to efficiently operate the units at Stock Island. KEYS is reimbursed by FMPA and KEYS does not want to pay more than it can recover.

At this time Chairman Padron asked if there was anyone in the audience who would like to comment on the budget. There were no comments. Chairman Padron closed the Public Hearing on the Budget and reopened the Regular Utility Board meeting.

AGENDA ITEM #5 – INFORMATIONAL ITEMS

Item #5a – Power Supply Report

Mr. Finigan informed the Board that since the last Utility Board meeting there has been one transmission outage, three distribution outages and fourteen feeder reclosures.

Item #5b – Generation Report

Mr. Wetzler informed the Board that currently there are 133.5 megawatts available, island generation is 95.5 which is 71.5% of the load. CT#1 is being run for voltage support. Medium Speed Diesel #1 and CT #3 are currently out of service. MSD #1 is having a problem with the injector heads which are due today from Frankfurt, Germany. Staff is still waiting for the pump for CT#3 which may possibly arrive next week.

Mrs. Tejada stated that on Monday there was an opportunity to run all of the units. Lakeland had a couple of units go off line unexpectedly and FMPA called for all of KEYS' generation. Generation staff did an excellent job keeping the units running.

Item #5c – Angela Street Equipment Removal

Mrs. Tejeda stated that in February the Utility Board approved a contract with Allied Recycling for removal and disposal of equipment at Cudjoe and Big Pine Key peaker sites, the Louisa Street Substation and at the Ralph Garcia Steam Plant.

Allied is wrapping up their work in the Keys, they expect to be done by August 13th. Staff has recognized that there is an opportunity while Allied is still here to remove and dispose of the remaining engines and associated equipment in the Angela Street Diesel property. This is not part of the original bid scope with Allied. Staff is having discussion with Allied to perform the work. If it works out, staff would like to proceed. This work would necessitate a change order to the contract and would be within the 5% permitted by Resolution #752 recently adopted by the Utility Board. This is a good opportunity to further clean the property for future development.

Mr. Batty asked what the estimate is to remove the equipment from the Angela Street property.

Mrs. Tejeda responded that that figure was not yet available. However, it appears that it will be a minimal cost and there may be some revenue sharing when the scrap is sold. Mrs. Tejeda stated that the original contract with Allied is \$31,000 so it will be no more than 5% of that figure for the additional work at Angela Street.

Agenda Item #5d – Pollution Insurance

Mrs. Tejeda informed the Board that the current pollution insurance expires on August 12th. Staff will have a request for approval of the pollution insurance at the next Utility Board meeting. Mrs. Tejeda stated that in the meantime she will need to bind the insurance to ensure that there is no lapse in coverage. This should have been an agenda item this evening. However, staff had been awaiting quotes and is trying to determine if the pollution insurance is truly needed. FMPA currently has insurance that covers a large part of KEYS' pollution exposure and the Excess Liability Policy will do the same. Staff has completed the review with McNeary, the insurance consultant, and FMPA and has determined that it is advisable for KEYS to get the insurance.

Mrs. Tejeda stated that the premium is \$50,000 which is a 3.5% increase compared to last year's premium. She stated that she would like approval to bind the insurance on a temporary basis on August 12th and then staff will seek formal approval at the next Utility Board meeting for the remainder of the year.

Mr. Hernandez asked what is covered under the policy.

Mrs. Tejada responded that the insurance covers any type of fuel seepage. One of the reasons it is in question is because FMPA owns the fuel in the tanks. However, if one of KEYS owned tanks ruptured or if a spill occurs during a barge delivery and one of KEYS' employees contributed to the spill through negligence this insurance will be utilized. FMPA will reimburse KEYS 71% of the \$50,000.

Mrs. Tejada reminded the Board that KEYS' annual picnic will be held on Saturday, August 25, 2007 at 5:30 p.m. at the Trumbo Water Park.

Chairman Padron advised the Board that an Audit Committee meeting was held at 3:30 prior to this meeting. Chairman Padron stated that he and Mr. Bradford serve on the committee. The meeting is a kick-off meeting prior to the audit which will be conducted by Oropeza and Parks, CPA's.

Chairman Padron proceeded to give a brief overview on the items listed below which were discussed at the meeting.

- **GASB REQUIREMENTS AND UPDATES**

One of the requirements will be OPEB (Other Post Employment Benefits) This reporting will include a number of employer-paid post employment benefits (other than pension benefits) such as health insurance. KEYS will be required to implement OPEB. There is no requirement to fund it at this time. However it must be reported and shown as a liability.

Chairman Padron stated that some measures have been taken to reduce the liability. Some policy changes have been made to KEYS' benefit plan where an employee will not receive health insurance benefits if they were hired after a certain date. At one time the utility paid health insurance for all retirees.

- **REVIEW OF PREVIOUS YEAR'S MANAGEMENT MEMORANDUM**

The Audit Committee reviewed the recommendations made the previous year to strengthen the internal controls of the organization. All of those recommendations have been accomplished.

- **DISCUSSION OF SPECIFIC AUDIT AREAS TO REVIEW**

This issue deals with any specific areas the Board would like for the auditors to investigate. Last year the auditors were asked to review the Power Cost Adjustment Calculation. That was accomplished by the auditors.

Chairman Padron encouraged the Board to contact the auditors if there were any specific areas that they felt should be reviewed by the auditors. Chairman Padron stated that security is one of the areas that the Audit Committee has asked the auditors to review to ensure that the policies and procedures are being followed.

Chairman Padron stated that the Audit Committee was formed two years ago and it has given the Board the opportunity to become more involved in the audit process.

Mr. Hernandez requested a listing of the items that are being reviewed by the auditors.

- **SAS99 (Statement on Auditing Standards) FRAUD ASSESSMENT**

Under this item the auditors are required to ask the Audit Committee and Management if they are aware of any fraudulent acts.

Chairman Padron stated that one issue was discussed by the Audit Committee regarding suspected sabotage at the power plant in December 2006. There is also a worker's compensation issue that was discussed. Workers' Compensation is aware of the issue.

Chairman Padron informed the Board that next year the contract with Oropeza & Parks expires. In the past the Board has renewed the contract if they are pleased with the auditor's performance. The Auditor General has suggested that a process be followed where a "Request for Proposals" or "Request for Quotes" is requested. He stated that the Board should be following that process next year.

Chairman Padron stated that this concluded his report regarding the Audit Committee meeting.

Chairman Padron had one additional item under Informational Items regarding a letter from the Gato family regarding the Louisa Street Substation. The Gato family has requested that the substation be converted into a park.

Mrs. Tejada informed the Board that she has written a letter to the Gato family informing them that the Land Use Committee is currently reviewing all of KEYS' properties and what the best use will be for the properties and that the request will be taken into consideration.

AGENDA ITEM #6 – CONSENT AGENDA

- a) Approve Minutes - Regular Meeting - July 25, 2007
- b) Approve Disbursements Report and Budget Amendments #07-37 Purchase Batteries for Synchronous Condenser & MSD Units and #07-38 Purchase Circuit Breaker for HSD Unit #2
- c) Approve Staff Recommendations Regarding Implementation of Standards 11, 12, 13, 14 and 15 of the Public Utility Regulatory Policies Act (PURPA) of 1978 as Codified in the Energy Policy Act of 2005

Motion was made by Ms. Clark and seconded by Mr. Hernandez to approve the Consent Agenda. The motion passed unanimously.

AGENDA ITEM #7 – ACTION ITEMS

Agenda Item #7a – Approve the Fiscal Year 2008 Budget and Five-Year Financial Plan (2008-2012)

Mrs. Tejada stated that a Budget Workshop was held on July 25, 2007. As a result of the workshop the Budget has been updated. All of those changes have been presented this evening during the Public Hearing. Having met the requirements and there being no public input or further input by the Board staff is recommending the approval of the Fiscal Year 2008 Budget and the Five-Year Financial Plan (2008-2012).

Motion was made by Mr. Batty and seconded by Ms. Clark to approve the Fiscal Year 2008 Budget and Five-Year Financial Plan (2008-2012). 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

Chairman Padron commended staff for the improvement in the budget process.

Agenda Item #7b – Approve Mandatory Reliability Standards Compliance Contract with Florida Municipal Power Agency

Mrs. Tejada proceeded to provide a brief background on this item. The U.S. Energy Policy Act of 2005 set up FERC Federal Energy Regulatory Commission which gives oversight for the reliability of the bulk transmission systems in the United States. It legislated that certain standards would be created which utilities will have to follow. As a result NERC was created and they are responsible to assure that the reliability standards are in place, monitor and enforce the standards. NERC worked with the regional areas which in our case is the FRCC (Florida Reliability Coordinating Council) who oversees all of KEYS' standards. Thus far they have created 83 standards that must be adhered to. Functional levels have also been established that have been designated to KEYS; Distribution Provider, Generator Owner, Generator Operator, Transmission Owner but not a Transmission Operator. There is some discussion that at some point KEYS may be a Transmission Operator.

Mrs. Tejada continued to state that there are two areas in which KEYS is working together with FMPA who has been designated as KEYS' load serving entity and transmission planner. As a result of the designation FMPA is asking that KEYS enter into a contract specifically listing KEYS' responsibilities and FMPA's responsibilities in meeting the obligations to NERC and the standards.

Mrs. Tejada informed that the contract identified the responsibilities and was approved by the All Requirements Project participants in May.

Mr. Batty commented that it seems that KEYS, once again dealing with FMPA, has no choice but to enter into the contract.

Mrs. Tejada stated that this is something KEYS cannot accomplish by itself. KEYS cannot be a load serving entity or transmission planner. These are services provided by FMPA and in taking on the responsibility they do KEYS a great service.

Motion was made by Mr. Hernandez and seconded by Mr. Batty to approve the Mandatory Reliability Standards Compliance Contract with Florida Municipal Power Agency

Under discussion Mr. Batty asked if staff is comfortable with the distribution of the responsibilities between FMPA and KEYS.

Mrs. Tejada stated that they are and that FMPA assumes a lot of responsibilities which alleviates KEYS from a lot of tasks.

Mr. Hernandez asked what the impact is to KEYS being designated as a transmission owner since KEYS only owns a portion of the tie line. Is Florida Keys Electric Co-Operative (FKEC) required to comply.

Mrs. Tejada responded that they are required to comply. KEYS has been working with FKEC and they have signed letters taking responsibility for the breakers that are in their service territory.

Chairman Padron inquired on what the penalties are if KEYS is not in compliance.

Mrs. Tejada stated that NERC and FRCC have the ability to give enforcement actions. The actions are varied but can include up to \$1 million per day in fines.

Chairman Padron referred to Schedule C in the contract stating that a lot of responsibilities fall on KEYS. He asked who oversees the implementation of the requirements.

Mrs. Tejada responded that a committee exists and is comprised of Stan Rzad, Compliance Administrator, who is the chairman; Dale Finigan, Fred Culpepper, David Price, Jack Wetzler, and herself. A filing system has been set up on line to enable tracking on the specific requirements. If NERC conducts an audit the information is easily accessible. An internal audit is being considered and FMPA has indicated that they are putting together a peer-review group. There will be ample opportunity to assure that there is compliance with NERC.

Chairman Padron asked where KEYS would stand today if an audit is conducted.

Mrs. Tejada stated that KEYS is in compliance with all but three of the standards. KEYS has filed a mitigation plan on those three standards which outlines the steps to be taken to be in compliance.

Chairman Padron asked what impact there will be on KEYS if they become a Transmission Operator.

Mrs. Tejada responded that FMPA lobbied on KEYS' behalf so that they will not become a Transmission Operator since KEYS is at the end of the line and there is no transmission flowing through the system. However, it is possible that the decision can be reversed at some point. That would add seventeen additional standards that KEYS will have to adhere to. The standard that will be most difficult

to deal with is that KEYS will be required to have certified operators. All of the personnel in the Control Center will have to become certified. Currently there is only one person working towards becoming certified and the others are not moving in that direction.

Chairman Padron stated that it is important for the operators in the Control Center to understand that it is realistic that they may be required to become certified and should be working towards that goal and it is not happening.

Mrs. Tejada commented that this issued has been in discussion for at least a year. During Union Negotiations the Management Team brought to the table the opportunity to get incentive pay for those operators who volunteered to become certified and it was not approved during the contract negotiations. Since then many conversations have occurred with the operators stressing that the designation can change and it will be mandatory that they become certified. It was recently added to the job description as a training need and it was immediately brought to the attention of the Union leadership. The Union leadership appears to understand the seriousness of this issue and plans to have some discussions with the personnel in the Control Center to help them understand the urgency to become certified.

Mr. Batty asked if FMPA is going to do anything regarding unified certification.

Mrs. Tejada responded that FMPA has identified a school and Fred Culpepper, Control Center Supervisor, has attended the school. There is also on-line training available and refresher courses.

Mr. Finigan commented that KEYS has been very proactive on this issue.

Chairman Padron stressed that the Control Center personnel need to realize that they may be without a job if the certification is mandated and they do not have it.

There being no further discussion the motion passed unanimously.

AGENDA ITEM #8 - OTHER BUSINESS

Mr. Batty requested an update on the SO2 Credits.

Mr. Wetzler responded that they are still below \$300.

There being no further business to come before the Board the Regular Utility Board meeting of August 8, 2007 was adjourned at 6:03 P.M.

APPROVED:

Robert R. Padron, Chairman

ATTEST:

Lynne E. Tejeda, General Manager & CEO/Secretary

sp