

MINUTES FROM A REGULAR MEETING OF THE UTILITY BOARD OF THE CITY OF KEY WEST, FLORIDA, HELD AT 5:00 P.M. ON MARCH 12, 2008 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 Hernandez. Present and answering to the roll call were Utility Board members: Peter Batty, Charles Bradford, Mona Clark, Ty Symroski and Chairman Hernandez. Also present at the meeting: Lynne Tejeda, General Manager & CEO; Jack Wetzler, Assistant General Manager & CFO; Nathan Eden, Board Attorney; Alex Tejeda, Director of Customer Services, Suzanne Greager, Director of Management Services, David Price, Director of T&D; Dale Finigan, Director of Engineering/Control; Edward Garcia, Director of Generation; and Stan Rzad, Compliance Administrator.

AGENDA ITEM #4 – RECOGNITION

Completion of 3rd Year Meterman Apprenticeship – Juan Menendez

Chairman Hernandez recognized Mr. Juan Menendez stating that Mr. Menendez has completed the third year of the Meterman Program. The third year course consists of 16 sections that cover metering, transformers, wiring, fuse protection, switches, and relays, among others.

Juan is a Meter Service Technician in our Meter Services Section. He has been with the company for a little over three years.

Mr. Menendez thanked the Board for the recognition.

AGENDA ITEM #5 – INFORMATIONAL ITEMS

Item #5a Power Supply

Mr. Finigan reported that since the last Utility Board meeting there have been three feeder reclosures, three distribution outages and one transmission outage which was a result of the statewide outage.

Item 5b – Generation Report

Mr. Garcia informed the Board that the overhaul on CT #2 had gone well the runs were satisfactory. CT's #1, 2 & 3 are down for painting. CT#1 should be available by April 1st. All CT's are expected to be back in service by the end of March.

Mr. Garcia continued to say that some problems were experienced with the new hydrogen panel on the synchronous condenser. GE was on site to check the cause of the tripping being caused by the hydrogen panel and they discovered a bad cell block which was replaced. With the exception of CT#1, #2 & #3, all units are available. Currently there are 65.5 MW's available.

Agenda Item #5c – APPA's 2008 Reliable Public Power Provider

Mrs. Tejeda informed the Board that KEYS has received notification from the American Public Power Association that KEYS will be recognized in April as a Reliable Public Power Provider with a platinum designation. The award is a result of all of KEYS' employees who contribute daily to the reliability, safety, training and system improvements that the RP3 designation recognizes. Mrs. Tejeda stated that she would like to recognize the members of the RP3 Committee who worked very hard to put together the application packet; Heather Arencibia, David Price, Julio Barroso, Edward Garcia and Dale Finigan.

Mrs. Tejeda stated that this is very prestigious award; in 2007 only 48 of the nation's 2,000 public utilities had received the designation. Everyone should be proud that KEYS is in the top 3% of the nation's public power utilities.

Agenda Item #5d – Financial Report Four Months Ended January 31, 2008

Mrs. Tejeda stated that the financial report is included in the Board's packet for their review. Staff will be pleased to answer any questions.

Agenda Item #5e - Sponsorships Update

Mrs. Tejeda stated each year the Utility Board funds community sponsorships, this year the Board allocated \$10,000. Those funds have already been used up and unfortunately requests are being denied. She informed the Board that their packets include a list of the organizations that received donations this year and in what amount. The Sponsorship Policy was recently changed so that next year KEYS can choose to allocate the money on a quarterly or bi-annual basis so the money does not run out as quickly.

Agenda Item #5f - Land Use Committee Update

Mrs. Tejeda informed the Board that the Land Use Committee remains very active on a variety of land issues. A meeting was held on Friday and the committee updated the economic model with information received regarding land available on Rockland Key and the results of the competitive bid for Parcel A & B on Stock Island. As a result of this information the committee has narrowed down the options to remaining in Key West with limited upgrades to the Service Building and the Stock Facilities or relocating operations to Stock Island either in a new facility or in an updated building. The committee plans to make a report to the Board in the near future.

Mrs. Tejeda continued to say that as a result of the competitive bid for the Stock Island Property the committee plans to make a recommendation to the Board at the next Utility Board meeting to sell Parcel A. Mrs. Tejeda stated that staff is getting a favorable indication from the Florida Department of Environmental Protection regarding Cudjoe Key property west of Blimp Road. It appears that the sale is on track and is scheduled to go to the Board of Trustees and Florida Cabinet on April 15th. Mr. Rząd will attend a pre-cabinet meeting on April 9th to answer any questions that they might have. The closing is hopefully scheduled in July or August for the \$1.9 million. A reduction in that amount has not been mentioned. There is one minor issues regarding an easement that staff is working on.

Agenda Item # 5g – Preliminary Results of Recent Florida Municipal Power Agency, Florida Reliability Coordinating Council Mock NERC Audit

Mrs. Tejeda informed the Board that Mr. Rząd will provide a brief report on the recent mock audit that KEYS conducted with the assistance of FMPA and various member cities.

Mr. Rząd stated that NERC is the North American Electric Reliability Cooperation and they have created over 100 standards that apply to utilities in America. KEYS is registered as a distribution provider, generation owner, generator operator and transmission owner. Therefore, certain standards apply to KEYS. Currently there are approximately 20 some standards that apply to KEYS. At KEYS' request, FMPA coordinated a mock audit. They looked at all the standards and requirements that apply to KEYS and had KEYS tell them why they think they comply. There is a committee that will address the eight or ten different items that came out of the mock audit that need to be in place. FMPA pointed out that if this was an actual audit and KEYS' were fined the fines could be \$55,000 to \$1.5 million for non compliance. Every standard has multiple requirements some have two and others may have ten. Assignments will be

made to certain individuals at KEYS and they will have ownership of the requirement and assure that everything is in place.

Mr. Rzad told the Board that further reports will be made to them.

Chairman Hernandez asked for an example of a standard.

Mrs. Tejeda responded that sabotage reporting is one and continued to give an example of what the requirements are.

Chairman Hernandez asked what is the purpose of NERC and who requires it.

Mrs. Tejeda responded that it was primarily a result of the mid-west power outage in 2003. Legislators became involved saying they wanted to have more oversight and more assurances that such outages will not occur again. NERC was given the responsibility as a result of that and have been developing these standards. The goal is to improve reliability for customers.

Agenda Item # 5h – Address Board on behalf of Green Key West, LLC

At this time Mrs. Diane Covan introduced herself and Mr. Marcus Varner. She proceeded to tell the Board that she and Mr. Varner are two of the managing members of a small company called Green Key West, LLC. She stated that the group has been trying to put together something that people can afford by going solar. Mrs. Covan stated that currently KEYS has one interconnection agreement that will allow the customer to sell back at the avoided cost. Mrs. Tejeda has explained to us why this makes sense. Mrs. Covan stated that it will be much more affordable if KEYS would provide a 100% roll back as currently done by Florida Keys Electric Cooperative. It would not be a big expense to the utility. This will support and demonstrate that KEYS is sincere in wanting to help in this process.

Mrs. Covan stated she is aware of a meeting held by Florida Municipal Power Agency (FMPA) regarding the solar issue and she believes that all FMPA members will abide by the same agreement once it is drafted. It may take several months to a year for FMPA to come up with a uniform policy. She stated that obviously KEYS will have to sign on and it will supersede any agreement that KEYS may have with a customer who has an interconnection agreement.

Mrs. Tejeda stated that she agrees with Mrs. Covan on the point that this is currently not a large expense. Currently KEYS has one customer interconnected at this point. For the months of December, January and February the customer has received credits totaling \$13.16. If the methodology Mrs. Covan is suggesting had

been used the credit would have been \$21.50 which is a difference of just \$8.34. It is not a lot of money for KEYS or the customer depending on how you look at it. It may help some but there will not be a significant incentive for customers to sign up for the system.

Mrs. Tejeda stated that there are still concerns that were discussed at the PURPA workshops. There will be some cross subsidization, the current retail rate includes such costs as generation, transmission, distribution, meter reading and customer expenses. If anything other than avoided cost is used KEYS will not get back the full value of these costs on the portion that is rolled back. She also expressed that it is very difficult to offer customers a benefit and then take it away.

Mrs. Tejeda expressed that there are things that KEYS can and should do to generate an incentive for solar generation. The Green Committee is working diligently to come up with a list of ideas that will be presented to the Board at a workshop in May. The goal is to have all of the options priced with their benefits so that the Board can make a decision on which initiatives KEYS can pursue. She suggested that solar initiatives be included in the list of options. She recommended that this issue be sent to the committee prior to any Board action.

Chairman Hernandez thanked Mrs. Covan and Mr. Varner for the information they provided.

Mr. Batty asked a question regarding a ruling mandating utilities to buy back on a net metering basis.

Mrs. Tejeda responded that two things have happened this week, one being the FMPA workshop and the other being the Public Service Commission (PSC) adopting a rule regarding net metering and interconnection agreements. The PSC rule requires municipals to file their interconnection agreement and to report on all interconnections.

Mr. Batty asked Mr. Varner what the cost is for their solar system.

Mr. Varner responded that the system is not currently in place and they are looking at several options due to costs. Any kind of relief will help to justify the system.

Mr. Batty asked if staff has done an analysis on net metering vs. avoided cost on the system being discussed with Mrs. Covan.

Mrs. Tejeda responded that it has not been done on their system.

Mr. Bradford commented that the Board needs to do everything possible to encourage customers to get into solar energy.

Mr. Batty stated that he agrees with Ms. Tejeda's comment about giving the customer something and then taking it back and also agreed with Mr. Bradford's comment.

Mrs. Covan stated that FMPA is going to adopt a policy and KEYS will be bound by it. In the meantime, KEYS should help consumers. There is a perception that KEYS is not helping on the solar issue. Whatever agreement is signed by Green Key West, LLC., will be null and void once KEYS is forced by FMPA to do what they say you have to do.

Mrs. Tejeda commented that FMPA can set a standard but the Utility Board can still set their own rates. KEYS will not be obligated to do what they say.

Mr. Symroski stated that he feels the Utility Board needs to promote the development of solar power and other alternatives. Steps need to be taken to achieve an objective to endorse renewable energy. Part of offering energy services is offering leadership as to where KEYS needs to be in terms of energy in the community.

Mr. Batty asked Mr. Eden and Mrs. Tejeda if a net metering rate can be installed for a period of time, six-months to a year.

Mr. Eden responded that it will require PSC approval since it will change the rate structure.

Mrs. Tejeda stated that KEYS has not been required to file a tariff change because the current interconnection agreement is being treated as a pilot program. KEYS will have to file tariffs in the future based on the new ruling by the PSC. A pilot program can be utilized until KEYS knows the exact date the tariffs must be filed.

Mr. Batty asked if the need to get approval from the PSC will be eliminated if it is called a pilot program.

Mrs. Tejeda commented that she will need direction from the Board to change what was reaffirmed in the PURPA public hearings and Utility Board meeting on how to reimburse customers who sell back excess power. Right now the Board has specified using avoided cost. If the Board changes that direction in an open meeting the Board can continue with the interconnection agreement as

a pilot program with the new direction and then at the time the tariffs must be filed the Board can make another determination.

Mr. Eden commented that he did not know how FMPA will react to this.

Mrs. Tejeda stated that the workshop held last week by FMPA was trying to determine how they can arrive at a contract so that all the utilities are not out of compliance with the All Requirements Project contract. Their goal is to do avoided cost but they have made it clear that what the utilities do beyond that is up to the utilities. They will not take control away from the elected bodies. They will reimburse at avoided cost but if the individual utility decides to change what the reimbursement is to the end customer, then that is up to the utility.

Mr. Batty stated that he agrees with Mr. Symroski that perception is very important. If it can be done under the constraints of a pilot program with a time frame, there will be no violation of any rules or regulations. It will send a very important message to the community.

Mr. Eden stated that he will feel more comfortable if FMPA is notified of the pilot program.

Mr. Batty commented that FMPA can be notified and they can react. If it is in violation of FMPA the Board can withdraw any agreement with Green Key West, LLC.

Mr. Symroski stated that perhaps it will behoove FMPA to have pilot programs out there to be used as a learning process. He suggested going forward with the pilot program.

Mrs. Covan expressed that she would be very pleased to have KEYS change the current pilot program from avoided cost to true net metering.

Mr. Eden stated that he did not feel a formal motion is necessary.

Mrs. Tejeda stated that a formal motion is required because currently the authorization is to purchase power at avoided cost. If it is going to be purchased at retail rates a motion is required.

Motion was made by Mr. Batty and seconded by Mr. Bradford to add this item under action items on the agenda. The roll was called and the following vote was recorded:

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

Motion was made by Mr. Bradford to proceed with 100% roll back seconded by Mr. Batty.

Mr. Symroski suggested amending the motion to state “Authorize staff to have a pilot program for the full net metering price and to use that information to assist FMPA in developing a unified program for all the members”.

Ms. Clark asked if there is a timeline to be included in the amendment to the motion.

Mr. Symroski responded that KEYS will be working with FMPA’s timeline.

The amendment made by Mr. Symroski was accepted by Mr. Bradford who made the motion and Mr. Batty who seconded the motion.

For clarification of the motion Mrs. Tejada stated that the Board is giving staff the authority to update the current pilot program using the new parameters of true net metering instead of avoided cost net metering.

Mr. Batty added until “October and to notify FMPA that this is being done” and Mr. Symroski added “and to cooperate with FMPA”.

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. Symroski	Yes
Chairman Hernandez	Yes

Easter Egg Hunt

Mrs. Tejada reminded the Board of the annual Easter Egg Hunt to be held on Saturday, March 15 at 10:00 a.m. at Poinciana School.

Government Going Green Symposium

Mrs. Tejeda informed the Board that the Government Going Green Symposium will be held on Monday, March 17th at the Harvey Government Center. Currently there are approximately 60 community members that have signed up for the event.

AGENDA ITEM #6 – CONSENT AGENDA

- a) Approve Minutes: Regular Meeting - February 13, 2008 & Special Meeting – February 22, 2008
- b) Approve Disbursements Report
- c) Approve Change Order #1 to Circuit Breaker Sales & Services for Relay Testing
- d) Declare Miscellaneous Wire and Metal as "Surplus"
- e) Declare Inventory & Non Stock Items as "Surplus"

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

AGENDA ITEM #7 – ACTION ITEMS

Agenda Item #7a – Approve Change Order #1 to R.W. Beck for Environmental Services

Mrs. Tejeda stated that each year KEYS works with R.W. Beck on a variety of environmental issues. This year it was anticipated that the costs with R.W. Beck would be approximately \$24,000 and it was assumed that it would cover the Title V Permit Reviews, Annual Operating Review and other issues that might arise. At this point, staff knows that there will be additional costs of \$19,000 which will primarily cover the assistance for permit applications for the transmission project on Line 4 which is over water. There will also be a change on the Title V Permit from its current construction permit to an operating permit and there will be additional updating on the Spill Prevention Control and Countermeasures Program at Stock Island.

Mrs. Tejeda stated that staff is asking that the Board approve Change Order #1 to Purchase Order #5573, in the amount of \$19,000.00, issued to R.W. Beck for Environmental Services.

Motion was made by Mr. Bradford and seconded by Mr. Batty to approve Change Order #1 to R.W. Beck for Environmental Services in the amount of \$19,000.00. There being no discussion the motion passed unanimously.

Agenda Item #7b – Approve Property, Boiler & Machinery Insurance Coverage through Key West Insurance, Inc. effective April 1, 2008 through March 31, 2009

Mrs. Tejeda informed the Board that it is time to renew the Property Boiler and Machinery Insurance for the upcoming year. The insurance coverage runs from April 1st through March 31st. The renewal period was changed several years ago so that renewal would not occur during hurricane season. She proceeded to inform the Board that this year KEYS is insuring in the amount of \$88,536,806 which covers real and personal property as well as business interruption. Due to the large amounts the insurance is handled with a primary layer of \$50 million which will be placed with Liberty Mutual Insurance at 60% and at Hartford Steam Boiler at 40%; the excess layer of \$38,536,806 will be with Landmark American Insurance Company. The first layer has a deductible of \$2 million. Staff considered lower deductibles and determined that the savings achieved at the \$2 million was substantial enough to maintain the \$2 million level. The Board may recall that several years ago when the higher deductible was at the \$5 million mark the Board authorized creating an operating reserve that would be taken up to \$2 million. Currently it is funded at \$800,000. It is planned to be at the \$2 million level by September 30, 2010. Staff feels it is prudent to go with the \$2 million deductible.

Mrs. Tejeda stated that staff also recommends a mobile equipment policy with Fireman's Fund at a premium of \$4,900 which will insure \$213,000 worth of mobile equipment.

Mrs. Tejeda continued to say that again this year staff is recommending against the Terrorism Risk Insurance Act. The act is very narrowly defined.

Mrs. Tejeda informed the Board that decent reductions were achieved on the actual premiums but those improvements were eaten up by the assessments that State of Florida is now able to levy due to the windstorm assessments. This year the total premium, after the assessment, is \$3,300 less than last year's.

Mrs. Tejeda stated that staff recommends approval to bind and renew the property boiler & machinery and mobile equipment insurance coverage with Key West Insurance Inc., with Liberty Mutual Insurance/Hartford Steam Boiler and Landmark American with a \$2 million deductible and Firemen's Fund for the mobile equipment with a \$1,000 deductible to be effective April 1, 2008 through March 31, 2009.

Motion was made by Ms. Clark and seconded by Mr. Batty to approve Property, Boiler & Machinery Insurance Coverage through Key West Insurance, Inc. effective April 1, 2008 through March 31, 2009.

A brief discussion ensued on the deductibles. The roll was called and the following vote was recorded:

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

Agenda Item #7c – Award Contracts for Peaker Site Soil Remediation
Bid #20-08

Mrs. Tejeda stated that staff is pleased to recommend a clean up award. The Cudjoe Peaker Site has been in the process of a clean up for sometime. There were oil spills throughout the years. KEYS became aware of this at the time the property was considered for affordable housing. Last year staff went out on bids to clean up the property and the bids came in at well over \$1 million. Staff went out again this year for competitive bids. Staff is pleased to have received a bid for \$555,000 to do the clean up at the Cudjoe Peaker Site. The process that will be used by EnviroTek is different than the one proposed last year. Last year the proposal was for removing fill and bringing in new fill. EnviroTek's process is to clean the existing soil on site. The Department of Environmental Protection (DEP) has reviewed the process and has signed off and approved the process. The process will take as much as 275 days from start to finish.

Mrs. Tejeda stated that staff recommends approval of the contract to EnviroTek for a unit cost basis, 10,000 units each at \$55.50 per unit. Staff is also recommending the award of a contract to EP3, Inc. in the amount of \$10,260 for monitoring.

Motion was made by Mr. Batty and seconded by Mr. Symroski to award the contracts for the Peaker Site Soil Remediation Bid #20-08 to **EnviroTek based on the stated unit prices in the estimated amount of \$555,000 and to EP3, Inc. in the amount of \$10,260 for a total estimated cost of \$565,260**

Under discussion Mr. Batty asked if EnviroTek is a reputable, bondable company.

Mrs. Tejeda responded that they have met all the terms and conditions and DEP has signed off on them.

Mr. Symroski asked if EnviroTek bid last year.

Mr. Woodard responded that he did not believe that they had bid.

Mrs. Tejeda informed the Board that KEYS has been having ongoing discussions with AIG which is the environmental services insurance company. Staff has diligently been working on getting them to pay a portion of this cost, the deductible is \$100,000. They originally denied the claim and staff has been negotiating with them. She stated that she did not believe they will pay the full \$400,000 but that staff will be able to negotiate some settlement from them.

There being no further discussion the motion passed unanimously.

Agenda Item #7d – Award Purchase of a Hydraulic Rotating 55-foot Digger Derrick – KEYS Bid #22-08

Mrs. Tejeda stated that as part of the storm hardening project KEYS has been required to purchase and install poles that are heavier. Mr. Price, T&D Director, and Mr. Randy Roberts, Fleets & Facilities Supervisor, have done a lot of research trying to find a vehicle that will accommodate the size of the poles coming into the system for the storm hardening project. They feel that the TEREX is the best unit on the market. TEREX was the only bidder. Their bid was in the amount of \$276,533. Staff recommends the purchase of the rotating digger derrick from TEREX Utilities.

Motion was made by Ms. Clark and seconded by Mr. Bradford to award the purchase of the hydraulic rotating 55-foot digger derrick – Bid #22-08 to **TEREX Utilities in the amount of \$276,533.**

Mr. Batty asked if this vehicle will ultimately replace another piece of equipment.

Mrs. Tejeda responded that vehicle #9 which is the current digger derrick, has met the requirements for surplus. However, staff is not recommending surplus it at this time due to the delay in getting in the new digger and the trade in value is only \$35,000. It is not scheduled for an overhaul until 2010. Staff feels it will be a value to keep it in the system until 2010.

There being no further discussion the motion passed unanimously.

OTHER BUSINESS

Chairman Hernandez stated that he has a request from Ms. Clark to add an item to the agenda.

Ms. Clark made a motion to add to the agenda the granting of Good Friday off for KEYS employees. Mr. Batty seconded the motion to place the item on the agenda as an action item.

The roll was called and the following vote was recorded:

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

Ms. Clark made a motion to grant KEYS employees a day off on Good Friday, the motion was seconded by Mr. Batty. Under discussion Mr. Bradford stated that the previous year he had requested that Good Friday be added to the list of the official holidays for KEYS. Adding it every year is disingenuous it does not report to the rate payers the actual number of days employees are taking off. He stated that last year he had said that he would vote against it if it came up again as a non-designated holiday.

Ms. Clark asked when the union contract would open up again.

Mrs. Tejada informed that the contract expires on September 30, 2009.

Mr. Batty stated that he agrees with Mr. Bradford's comments but there has been a tremendous tradition in giving Good Friday off to the employees of this utility. He stated that he would vote to grant Good Friday off to the employees because of tradition. Mr. Batty suggested that it be placed as an item for negotiation at the time the union contract is negotiated.

Mr. Bradford stated that it will not be part of the union contract next year due to the contract not being open again until 2009 so it will most likely come up again next year.

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

Mr. Batty	Yes
Mr. Bradford	No
Ms. Clark	Yes
Mr. Symroski	Yes
Chairman Hernandez	Yes

ADJOURNMENT

There being no further business to come before the Board motion was made by Mr. Bradford to adjourn the meeting at 6:15 p.m.

APPROVE:

Lou Hernandez, Utility Board Chairman

ATTEST:

Lynne E. Tejeda, General Manager & CEO/Secretary

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