

AGENDA ITEM 2-a

MINUTES OF SPECIAL MEETING OF THE UTILITIES COMMISSION, CITY OF NEW SMYRNA BEACH, FLORIDA, HELD TUESDAY, NOVEMBER 13, 2007, AT 10:00 A.M., AT 200 CANAL STREET, NEW SMYRNA BEACH, FLORIDA

Chairman Spangler requested Commissioner Allen to proceed with an invocation and requested Commissioner Allen to also lead in the Pledge of Allegiance immediately following.

Chairman Spangler then stated we will move quickly to agenda item number one. He stated we may have a little presentation, is that true Mr. Rodi.

Mr. Preston interjected, as a point of order, a roll call was needed.

Chairman Spangler then requested for a roll call to be taken with all of the Commissioners in attendance as follows:

Commissioner William E. Hall
Chairman Richard L. Spangler
Commissioner Oscar Zeller
Commissioner Walter Allen III
Commissioner Jeanne K. Diesen

Others in attendance were as follows: R. Rodi, General Manager/ CEO; L. Klinkenberg, Director of Finance; R. Mitchum, Director of Electric Operations; T. Beyrle, Director of System Ops./ Generation; R. Lemoine, Director of I.T.; P. Perez, Director of H.R.; J. White, Director of Engineering; E. Mahle, Public Information Manager; D. Simmons, Executive Asst./Recording Secretary; B. Preston, Interim U.C. Legal Counsel; Peter Dame, Attorney with Akerman Senterfitt, UC bond counsel; Toby Wagner, President of Southeastern Investment Securities, UC Financial Advisor; Melanie Stawicki-Azam, Reporter for the NEWS JOURNAL; City Commissioner Plaskett; Bob Tolley and his son, and an unidentified man, all members of the public.

(1) Capital Financing Program – Award of Bid for Bank Qualified Loan:

Chairman Spangler then reiterated moving quickly.

Mr. Peter Dame, addressed the Commission and stated he was an attorney with the firm of Akerman and Senterfitt. He stated I'm here representing the utilities authority as your bond counsel in connection with this transaction. I prepared the resolution you have in front of you which is the authorizing resolution for a loan of \$10 million. I think the last time this item was before you we talked about going out to get bids, we did that, got bids back, and this is the next action to actually authorize the bonds. It then goes over to the City who has to approve the issuance of debt by the Utilities Commission. Once they've approved it, if they do and we hope they will, then we'll have a closing and actually execute the loan. This resolution basically authorizes all those actions.

Mr. Dame stated if I could just summarize real briefly the highlights of the resolution. It authorizes \$10 million of revenue bonds payable from the revenues of the Utilities Commission. It authorizes the execution of a loan agreement and in your package you have a copy of that loan agreement between the Utilities Commission and the winning bidder. The loan agreement has some covenants

(1) Capital Financing Program – Award of Bid for Bank Qualified Loan (cont.):

in it where you agree to operate the system properly and to repay the debt. The debt is to be tax exempt and you also agree to take the actions that are necessary to keep the bonds or the certificates tax exempt. The other action that this authorizes is basically authorizing staff to go forward and take the actions necessary to close the loan. He stated that's what we have before us today in terms of the action. I'm happy to answer any questions you might have. The legal part of this is fairly dry, fairly routine. Mr. Wagner is here to talk about the actual bids that we got in the bidding process but I'm happy to answer any legal questions you might have.

Mr. Rodi stated there's one point I would like to bring forward. Originally when we were talking about this bid we were focused upon a couple of things that I want to emphasize. One is the money is to be used only for the water projects that we've enumerated. And secondly, we were discussing whether or not it would be to our advantage to draw all of the money at one time or wait some period of time before we made the final draw. What this is requiring us to do is draw all of the money and then we would have to invest that money with our standard investment process. The reason for that is because I think we have a very interesting low rate that came with these bids. I mean I think that was somewhat of a positive surprise. I wanted to clarify those two items because in our previous conversation we had certain understandings mentally and I wanted to bring those forward.

Mr. Dame stated in terms of the resolution itself there are exhibits to the resolution which are the bids that we actually got, the recommendation from your financial advisor as to which is the best bid, form of the loan agreement, and the last item is the enumeration and approval of the cost of issuance, which are the various fees and expenses involved in the transaction and those are laid out there so you can see those if you want to look at those.

Mr. Preston stated I just wanted to make a point of clarification if I could, and I know this goes without saying, but the word bond was mentioned a couple of times, this is not a bond, it's actually a loan.

Mr. Dame stated a loan and denominated revenue certificate in the resolution.

Commissioner Hall stated I want to be clear, the loan is fixed, a fixed amount.

Mr. Dame stated the interest rate, the amount is fixed at \$10 million, the interest rate as soon as we draw the money down and we will draw it down as all of one draw, is fixed at the 3.93% rate that came in.

Commissioner Hall stated until we draw all of that \$10 million down.

Mr. Dame reiterated we'll draw it all at once, that was kind of the condition, we draw it all at once we get that fixed rate, it doesn't change over the 20 year term of the loan.

Commissioner Allen stated the other question I have is as we invest the earnings coming off that loan, will that stay with that project.

Ms. Klinkenberg stated I felt it would be used to offset the expense with it.

(1) Capital Financing Program – Award of Bid for Bank Qualified Loan (cont.):

Chairman Spangler stated I like the idea that we call this the 2007 project and they define what that money is for. And that question we just had raised there, I want to know that when we draw all that money down and reinvest it, that we be very certain that when we un-invest and begin to spend the money, that it be strictly for the 2007 project. And now we've established that the interest, is that an arbitrage interest that we will gain hopefully, will also go to that fund. I think that's important, that money is specified for a particular project and for nothing else.

Mr. Dame stated the resolution itself assists in that by creating a project fund for the proceeds of the loan and the investment earnings are to go back into that project fund and that project fund is suppose to be used for the purposes of paying for the project.

Chairman Spangler then asked if there were any other questions. He then asked if Mr. Wagner was going to speak to this too.

Mr. Wagner addressed the Commission and stated his name was Toby Wagner, the President of Southeastern Investment Securities out of Orlando and we're the Financial Advisor to the U.C. As Mr. Dame indicated the winning bid, the low bid, was at 3.93% interest. It is with BB&T, Branch Banking and Trust, and maybe not a name familiar to you. It's a fairly large regional bank in the southeast. It's about the 14th largest bank in the country and it's a substantial entity. You don't have to worry about them going bankrupt because you're getting all of the money drawn down at one time. I know with this credit crunch there's a lot of talk about some of the banks and some of the problems they're having. One of the interesting things about this very competitive bid and why they were competitive is because they wanted to loan out the money all at one time whereas other banks came in on a variable rate basis during the draw down period and then it would fix afterwards. We were very flexible in the way that we went out to bid giving certain options, various options so that a bank could specify which way they wanted to go. We would recommend approval of this, this is a very competitive rate in today's market when you received it and its still competitive today. We'll be able to get positive arbitrage on the earnings as of today. I don't know what's going to happen when we actually close the loan but we should still see positive arbitrage over and above the 3.93% that will go back into the project fund as Mr. Dame said. He stated so if there are any other questions I'll be glad to answer them.

Commissioner Hall stated I'm just curious, how competitive were the other banks. I think Bank of America and Wachovia.

Mr. Wagner stated Bank of America had the second low bid, they were at 4.02%. Wachovia was at 4.47%, U.S. Bank was at 4.32%, and SunTrust was at 4.50%.

Chairman Spangler stated I have one question about costs. We have all of the consultant fees and administrative fees, a total of \$40,100. There was one item mentioned here on page two, one of the costs, and it was discount upon the sale of 2007 Certificates. Could you explain that to me?

Mr. Wagner stated there isn't a discount. He then asked Mr. Dame if he would like to address that.

Mr. Dame stated within the resolution itself we do have a fairly broad definition of all costs that

(1) Capital Financing Program – Award of Bid for Bank Qualified Loan (cont.):

could mean to be paid. We would only pay those costs if in fact they are incurred. It's like a project costs engineering and everything else we could think of to provide you flexibility. For this transaction there is no discount on it, so that will not be a part of the costs. The only items that we actually expect you pay is shown on exhibit E.

Chairman Spangler stated okay, so that 3.93% is 3.93%.

Mr. Dame stated yes. If you went out for a negotiated sale or through a bond underwriting, normally there would be a discount so that's why that language is in there.

Chairman Spangler stated all right, then I think we need to hear a motion here.

Commissioner Allen stated I make a motion for approval of the bid from BB&T on this agenda item and approval of U.C. Resolution 9-07 (a motion to approve the bid from BB&T for a bank qualified loan for the financing of three capital water projects as stated in the agenda item [Smith Street Pump Reconstruction, Glencoe WTP Generators/Switchgear Upgrades, and 3rd Avenue Pump Station/Tank Reconstruction] in the total amount of \$10 million in 2007, approval of U.C. Resolution No. 9-07, authorization to forward to the City Commission for approval, and authorization for the Director of Finance to execute any necessary closing documentation). Commissioner Diesen stated I'll second the motion and the motion then passed unanimously on a roll call vote.

Mr. Preston stated may I interrupt, what I'm sure you know is that from this point we will ask the City Commissioners to consider this for approval. We are submitting that today to try to get on their agenda for their November 27th meeting. Secondly, you may also want to consider an additional motion to authorize staff to move further with the negotiation and executing any documents if approved by the City, so you wouldn't have to do that after approval.

Commissioner Diesen interjected so we won't have to have a special meeting.

Chairman Spangler stated okay, so we need a motion to send this to the City Commission.

Commissioner Diesen stated a motion to move forward after approval by the City Commission. I'll make that motion (to authorize staff to move further with the negotiation and executing the documents upon approval by the City). Commissioner Zeller seconded this motion and the motion then passed unanimously on a roll call vote.

(2) Status Update of Nuclear Option – Levy Project:

Mr. Rodi stated, while Tim Beyrle is getting his presentation up, the way we talked about doing this is that, as Mr. Beyrle moves along through the slides, I have a number of points I'd like to interject that are significant. So if you will bear with us as we go back and forth during the presentation, I think it's very important to understand all these other elements with regard to this project and others. He stated I will now join Mr. Beyrle at the table.

Mr. Beyrle stated what we wanted to do here today was give a brief overview of where we're at

(2) Status Update of Nuclear Option – Levy Project (cont.):

with the proposed nuclear plant as being supposed by Progress Energy in the Levy County area. We've had a couple of discussions with Progress Energy; they're still very preliminary at this point, especially as far as costs and things like that go. We've had conversations with Progress, but we have a confidentiality agreement with them as far as some of their costs go and their scheduling. So what you see and hear number wise is information we gleaned from other open sources as far as how we feel things might go.

Mr. Rodi stated with regard to this first slide you'll notice there are two cooling towers and I think that everyone has grown to understand that those represent nuclear energy, but in fact many fossil-based plants use this type of cooling tower. My reason for pointing it out is the new business model for this round of nuclear development, and this is generation three of reactors so that's what we're talking about here, includes a multiple-sequenced plant construction. The basic premise is that once you assemble on-site to build, then you can have a cost advantage if you use that same set-up investment for yet another plant. You can see that this particular approach has been used in the home building industry by builders, and you see it going on Sugar Mill Drive right now. When they come in, you'll get the foundation crew to put in the foundation, they'll just go from lot to lot, and then the framing crew comes behind them; so that's the kind of process that's involved in this model. There's something else that's involved, and I don't know if you're aware of this, but back in 2004 the Department of Energy initiated a program called Nuclear Power 2010 Program. And that particular program was meant to have sitings and actual licenses by 2010 for new nuclear plants. The injection of the Department of Energy with funding caused a consortium of utilities to be formed to take these next steps. Since about 1998 the NRC has been working to standardize new designs so that the approval of those designs won't come after the license, they come before. So Westinghouse and others have been heavily involved in new designs.

Mr. Rodi stated the particular units that Progress is looking at are AP1000 which are based off of the AP600, which is a forerunner that was approved by the NRC. The 1000 is now approved but neither the 600 nor 1000 have been built any where. The idea is to build these in pairs, Progress Energy is talking about two 1000 and something else you may not be aware of is Toshiba has acquired 77% of Westinghouse, so in this marketplace of nuclear power, G.E. is involved and they have a Japanese partner, Mitsubishi. And now what we have is Westinghouse and Toshiba working on a world market, so if you look at the number of potential plants that are going to be built, you will see this pattern being used in a number of places.

So I thought that's an important point for you to have some reference to what we're talking about. The reason why we've decided to talk about this now is that, without some reference point, you're sort of in limbo as to knowing details of a project. As a public power entity we're all about openness and transparency and details for the public to know; and, the structure of this is just the opposite.

Mr. Rodi stated Mr. Beyrle and I have been doing a lot of research to bring this forward. On a personal level I have 20 years of nuclear experience as part of my own background. Part of what I've been responsible for in the past has been dealing with all of the generation safety related systems and reactor safety related electrical systems. So it isn't that I say these things light heartedly. I do have some direct experience with this, and I think it's important just to focus on some of these issues.

(2) Status Update of Nuclear Option – Levy Project (cont.):

Mr. Rodi stated Mr. Beyrle had pointed out the confidentiality agreements and there is some limited information in them but nothing definitive with regard to going forward on a project. Understand that under Florida law there is no obligation of an investor-owned utility or anyone else to offer generation to municipal or REA systems. The only obligation is to talk to us and they're doing that. The first step was to ask us how much capacity would you want should we build a plant and they've done that all over the state with municipal entities. So as a result, we put in our amount that we thought we could use in the time frame of 2016 to 2018, just to take that first step. So this is what we're working from. What's occurred is, obviously the requests have been oversubscribed, meaning, that of the 2250 MW's, roughly, people want more than that 2250 MW's of what Progress is willing to give and there's a resolution meeting coming up to talk about that. That's the immediate background.

Mr. Rodi stated as another reference point, the 2005 Energy Policy Act had certain incentives and a lot of what you'll read in the confidentiality agreement is based upon competitive things. If you look around you'll see that these competitive things are all around the country so it really begs the question about the driver. But going to the Energy Policy Act, I'm just looking here, there's tax credits for the first two, I think I'm correct in the quantity but I may be wrong, actual operating reactors of this third generation to the point of \$125 million a year for eight years. There's also delay insurance of \$2 billion for the people building, so that if they have an investment and the delays cause their costs to go up, then there's insurance to cover that. On top of that there are loan guarantees of 80%. So in a marketplace, and I'll talk about this in some later slides, that is severely stressed an 80% loan guarantee is in and of itself very important, especially if you look at the credit ratings of some of the IOU's that are undertaking these projects. So it seems like a real driver is a foot race for a number of folks to take advantage of these incentives and the premise of it all is that after the first few are built then the costs should substantially come down. Progress has announced a total of four units; two in North Carolina and two here in Florida. He stated with that, we can go to slide two.

Commissioner Diesen asked Mr. Rodi to clarify; you said those guarantees are only for the first two.

Mr. Rodi stated for the first two, but there are also in Congress other loan guarantees which have been a part of the nuclear subsidy which have occurred for years. So that the approach, and this is being battled out right now at the Federal level, is to determine how much money would be available for loan guarantees. The 80% was specifically for, as I'm understanding, the first three sites that are approved and then the first two units that are in operation.

Commissioner Diesen stated of the third generation.

Mr. Rodi stated of the third generation, that's correct. So it gets even more complicated. I tried to boil it down and I hope I'm being accurate, I believe I am, but I'm not positive 100%.

Mr. Beyrle then stated this next slide discusses a little bit of the cost of generation over the life of the plant and that came from this report, this Nuclear Power Joint Fact Finding Study in June of this year from the Keystone Center. It was basically a group of industry participants, investor-owned utilities, government regulatory agencies and conservation groups who participated in a study. This is where a majority of the figures that you'll see came from. They've done fairly extensive studies

(2) Status Update of Nuclear Option – Levy Project (cont.):

on current costing and costing that amount out into the future to when the likely units are going to be built. So you see they're projecting costs anywhere from 8 to 11 cents per kWh for the output of the next generation of units.

Mr. Rodi stated and as you'll notice, that says delivered to the grid, which means that there are grid costs and distribution costs on top of all of that. Just to emphasize a point because a lot of times in these studies they're structured as such to represent a certain position. The participants in this study were American Electric Power, Constellation Energy, Duke Energy, Entergy, Excellon, Florida Power & Light, General Electric, National Commission on Energy Policy, Nuclear Energy Institute, Pew Charitable Trusts, and Southern Company. So when you see consensus statements like this, it's an indicator that there's a much better likelihood of costs and other features in these reports to become true. That was the purpose and since there was a very strong push because of Project 2010, there also had to be a number of assessments that related to all of the nuclear related issues. As a reference the costs are all over the board from what you can read from these next generation units, from 3.5 cents to 14 cents at the bus, if you will. In Japan there's some pretty consistent experience with a couple of advanced boiler water reactors that have been operating since 1996. These units have 60 year life cycles, that's what they anticipate. As another reference the existing units were originally scheduled with 40 year life expectancies and the life expectancy was determined more upon the radiation level inside containment at the end of that period. What has been learned is that the radiation levels are not anywhere near as high as they expected them to be because of some very good O&M practices so that 20 year life extensions have been applied for by a number of existing operating plants. So the new units are focused upon 60 year life cycles. The actual costs of these two units I was just referring to in Japan were a little over 7 cents a kWh and they're G.E. Hitachi Toshiba units, so that's the consortium that built those. There have been others built in Japan in the 1998, 1999 time frame, but I didn't want to refer to those because I don't think they've had as long of a price history.

Commissioner Diesen stated well then based on what you just said and the efficiency and the improvements, are the decommissioning costs any less? Obviously if they're amortized over 60 years it's probably going to be less but is that the only factor involved then.

Mr. Rodi stated no, and when we get to that point in the slides, I'd like to directly answer you then, if I may.

Commissioner Diesen stated okay.

Chairman Spangler stated if I might I have a couple of questions so we don't come back to something we've forgotten about when we asked the questions. First of all relative to what Commissioner Diesen said, when do our present nuclear facilities go off line, how much more of that do we have.

Mr. Rodi stated they're scattered all over the board but a lot of them that were completed in the late 80's have a 40 year life expectancy and then a 20 year after that. Some of them are as early as 2017 but those also have life extension requests in.

Commissioner Hall asked if they could be retrofitted at that point.

(2) Status Update of Nuclear Option – Levy Project (cont.):

Mr. Rodi stated unless someone can take, for example a pipe that is highly radioactive and replace it, it almost gets to be cost prohibitive and that's the curve that they were operating upon. As the reactor operates that whole inner area of containment starts to become more and more radioactive, so over time it becomes saturated, so what they were talking about was the saturation points as the end period for the license. Now they're projecting out with the new designs that end point wouldn't occur for 60 years.

Commissioner Hall stated okay. Is it safe to say when we're dealing with nuclear energy, and I am a proponent of all kinds of energy other than fossil fuels unless they can really burn efficiently, there are a lot of unknowns.

Mr. Rodi answered very much.

Commissioner Hall then stated it's going to be a roll of the dice to some degree on our part or this Commission's part.

Mr. Rodi stated yes, and we'll get to the roll at the end of the presentation.

Mr. Beyrle stated this slide, you've seen it before, and it's an overview of the Florida transmission system. The blue here represents the 500 KV lines, basically the backbone of the transmission in the state. You have the FPL at 500 KV on this side and then Progress has some 500 KV on this side with the Crystal River plant being right there, and there's also quite a bit of 230 KV. He stated the next slide will show more detail as to the actual location of the Levy Plant, it's up in this area. This is kind of giving you an idea of what kind of infrastructure is going to be necessary when these plants go in. You see that this area is fairly isolated electrically and there will be quite a bit of transmission needed just to get out into the grid with these units.

Mr. Rodi stated as a backdrop to this, in previous presentations we've included this slide several times only it had constraints with the red dots, if you remember that. We would show it and then the red dots would appear and they were everywhere. The constraints within the existing system are being addressed but we still have about a ten year window and we, as the U.C., have been severely constrained because of power flows through Central Florida. The project to rectify that is underway but it will still be a long term project so that our inability to flow power from the Gulf Coast area to us remains until some other transmission facilities are built and existing facilities are upgraded. Also we have constraints from the south as far as power flows are concerned so that in the last couple of years we've been getting a lot of our power out of the Georgia system and that is because of the strong 500 KV interconnects of FPL that are up in JEA's service territory.

Mr. Rodi stated there's another aspect of this I need to mention and usually electrical supply is just talked about in isolation. But if you recall our presentations after the affects of Katrina, we talked about the two transmission pipelines that are within the state. One of them is Gulf Stream and the other one is FGT. Gulf Stream has some remaining capacity in its pipeline and that pipeline essentially comes across the Gulf of Mexico and enters near Tampa and extends itself not quite to the east coast at this point, so it has a very limited exposure at this point. FGT is all over the state and have very limited capacity. FGT has been upgrading their pumps and what have you, but a limitation that is inherent to this system now on heavy demand is the limitation of the natural gas

(2) Status Update of Nuclear Option – Levy Project (cont.):

supply. What is currently happening in Florida are a number of merchant providers are proposing LNG, liquefied natural gas, storage tanks at certain strategic locations. In order to sell these storage tanks, I won't say they, but some of them, are referring to potential natural gas peak spikes in the \$60 to \$90 per million BTU range. Now in the past, the spikes have been in the \$20 to \$25 range. This is the daily spot market issue that you deal with. The second part of that is if that occurs in the 2008, 2009 time frame, as some of them are contending, you can quickly see what will happen. Not only will the generation costs go out of site again, as they have previously, but there can well be constraints upon the availability of the system. Now the FRCC, which is now an enforcement body and not just a coordinating body, has natural gas as a contingent reliability issue and is working with the natural gas industry on this. But it becomes an important consideration with regard to what exists and what the future may be so I wanted to use this opportunity to provide a lot of other information that is germane to this decision.

Mr. Beyrle pointed out the Crystal River plant on the west coast of Florida on the next slide. He pointed out the existing transmission system, the blue being the 500 KV and the green the 230 KV. He then pointed out the approximate location of the new Levy County units. He stated the only 500 KV here is to support Crystal River and the bulk of the 230 KV is also in support of that. You don't get any real support on the 230 KV until you get into Central Florida and then down in the Tampa region. In a future slide you'll see a projection on miles of transmission that will be required and you'll see the assumption we made based on the limited supply in this area.

Mr. Rodi stated referring to the Energy Policy Act of 2005 again, it has certain provisions that allow for transmission siting on Federal lands. The reason for that is, as you may well recall when some of these nuclear units were being built, that the siting of transmission becomes very difficult. The issues not only concern the environmental aspects, but then the areas in which the lines have to pass, people having some concern about those voltage levels, 500 KV, and health effects, and a number of other similar related issues. Most of the Energy Policy Act provisions were intended for the western United States so eleven states out there are involved in transmission line siting. However the precedent is there for facilitating additional siting for 500 KV from the Federal perspective in addition to what ramifications there may be at the State of Florida perspective. He stated I think, as just a reference, the existing blue line capacity that you see there for Progress Energy really doesn't connect to FP&L's system. Now that becomes important because we're talking about two very large units at the Levy location. Some talk about maybe a third unit because of all of the interest. Then there are questions about available water supply for these units as they need a lot of water for cooling purposes. And also then the transmission lines that exist don't have the capacity for these new plants, so in and of themselves they have limited capacity and a nuclear plant requires two 500 KV lines from different sources. So there's a question as to exactly where the paths will be but the growth area, even beyond the Central Southern Florida of Progress Energy's core service territory, is also growing very rapidly in Central Florida and in Northern Florida. So those are sort of competing demands and as you saw on the first slide there's not a lot going up there.

Mr. Beyrle stated the next slide shows some of the assumptions we made and some of the costs you'll see going forward in the next slide or two. We took a cost of \$4,000 per KW for actual construction of the units based on this Joint Fact Finding but costs could be up to \$6,000 per KW. The ones Mr. Rodi spoke of earlier in Japan were in the \$2,000 per KW range. We settled on a

(2) Status Update of Nuclear Option – Levy Project (cont.):

median cost of around \$4,000 just for the purpose of our analysis. We have two units of around 1100 to 1200 MW's each, and 300 miles of proposed transmission, either at the 500 KV and/or the 230 KV, with a conservative estimate of \$2 million per mile. That cost based on another study we have, the Trans-Alleghany Interstate Line Project, costs could be up in the \$4, to \$5 to \$6 million per mile range. Their terrain was worse than ours so ours would be a little better but you never can tell with transmission across open land like this. So based on two units and 300 miles of transmission, we estimated around \$4250 per KW for the units and the infrastructure improvements. The information we submitted back in October was an initial, non-binding interest of 12 MW's combined for the two units.

Mr. Rodi stated just let me inject again. When one reviews the Westinghouse web site for these AP1000's you'll see a reference in there to overnight costs and they cite for example \$1250 per KW or \$1750 per KW. When they refer to overnight costs what that means is that the plant could be built overnight. Well, plants aren't built that way. This design is very, very good. They've modularized components so they can build them off site and bring them in. They've also taken and assembled their production process so that they can have a three year turn key from the first concrete pour until they're done. There's been a lot of very good work done there, but the fact is an overnight cost is not the built cost. So that's why, and I had sent to you ahead of time for your reading enjoyment this particular study only in so far as it starts to present another point of view. From what we're looking at in our research a lot of the costs seemed to be in this \$3,000 to \$6,000 per KW sizing as far as how much money will actually be spent on these units.

Mr. Rodi stated there's another aspect to this and that is if indeed there is a lot of demand for these units then there will be a shortage of workers, and that ability to produce. All of the same things that happened with the last ramp up and what seems to happen, just like any place else on supply and demand, is there could well be even greater costs and that's why I think it was recognized in the Energy Policy Act about delay impacts. So there's a lot of structure to what has occurred to this point to set up this next push for nuclear, but I wanted to point out that you can read different costs that are presented and someone can point to them and say well no that number's not accurate, it's only going to be this amount. So in all fairness I thought it appropriate to bring that forward to your attention.

Mr. Beyrle stated based on those assumptions and assuming the 12 MW's, as Mr. Rodi mentioned earlier there's been quite a lot of interest by municipals and rural electric cooperatives here in the State to where 12 MW's may not even be a viable option any more based on the over-subscription of these units. But based on 12 MW's we see a unit cost of \$48 million, transmission cost of \$3 million, which brings the total portion for the U.C. for a 12 MW block of around \$51 million, a significant portion of which would be required before the unit ever goes on line.

Mr. Rodi stated again commenting on that, Florida law changed whereby the set up costs for these kinds of facilities can be immediately recovered from participants and ratepayers which is different than had it had been previously. Usually when you start to go through this process it takes several years. Progress has been working at this for over a year now and we've been tracking right with them and maintaining a conversation with them. But I would expect that there might be several hundred millions of dollars invested by the time you get to a commitment point. What I mean by that is that first commitment point says however many millions of dollars are invested by them at

(2) Status Update of Nuclear Option – Levy Project (cont.):

that time, the owners would have to share in the distribution of those costs so that obviously there would be some proportionality of that cost, but what it tends to do is disadvantage small utilities like us. For example we don't have access to any of the tax credits, we don't have any access to the loan guarantees but Progress would, and, the assumption I'm sure would be that at the end game whatever advantage Progress has achieved through this that they would share. Well obviously all of that depends upon the purchase commercial agreement that is signed. If you're investing a total of \$51 million, we just did \$10 million for something absolutely essential for our community, and look at this as we're pushing our total existing long term debt. And this is only for 12 MW and it starts to become very sobering.

Mr. Rodi stated so I wanted to make this not too painful, but the commitment is coming soon and I think that at this time I need to make another comment about the marketplace that is important. I remember Mr. Tolley saying about a year ago, what are you going to do when energy prices hit, I think you were only saying \$80 a barrel then, and we're now pushing \$100. If one begins to examine what is happening in the energy market, now again in my view, obviously this is just an opinion, but in my view there's a disconnect with the market from supply and demand. When one begins to dig into that market, what is happening is that the hedge funds in that market are having to draw down their investment because they also invested in the sub-prime. So investors are having to cover losses in the sub-prime market and the insurance counterpart behind that market and it's impacting the energy prices because everybody's looking at the demand and the supply curve saying that they can't explain it in that fashion. How it affects us is that we obviously have insurers to our bonds, we will have an insurer to our loan, but if the insurers aren't there to insure bonds or loans for municipals and I'm talking more of the City side of the business than I am to our side of the business, because the ability to increase taxes has been politically thwarted. So there can well be a down rating of bonds because the insurance component won't be there and many folks are saying we're only in the first inning with regard to the fall out from the sub-prime. Now, I don't know what the truth is. I mean if you talk to experts like we have that helped us with this water loan, this is so complicated and access to information is so limited that working through these issues and protecting the community interests, is why I'm saying these things. Rather than just thinking them, I don't know if it's true, I'm not an expert in all of this stuff, but there is something happening that I can't explain and I have read and there are documents that contend that this is part of the explanation. So for us to move forward I feel obligated to say these things, that's my purpose in saying them. I'm not trying to disrupt or cause any issue, but I think we've got to look over the top of the next hill and pay attention to what's happening around us when you see those kinds of numbers.

Mr. Beyrle then stated these are our current costs for the last two fiscal years; all-in costs of our nuclear facilities that we either own or participate in. You can see Crystal River is 3.7 cents and St. Lucie is around 6.2 cents. Part of the reason St. Lucie is a little higher is we do have to pay FMPA costs in that as well and we also have an agreement since there are two units, when one unit is down we get half out of the other unit so we're never without supply coming from St. Lucie as long as one of the units is up. But in the past those have always been our lowest cost resources which is quite a bit lower than what you saw in the first slide of 8 to 11 cents per KW.

Mr. Rodi stated first of all Crystal River, as we mentioned before, is currently undergoing upgrades and will be for the next couple of years so that cost figure will increase and we'll also have

(2) Status Update of Nuclear Option – Levy Project (cont.):

additional kWh that will come from that. But one of the things that seems likely is that if our FMPA St. Lucie cost is at 6 cents, then it's likely we could see 8 cents at the bus from these new units, especially going out 10 years from now. So it's one of those touch points that we wanted to make with this particular slide.

Commissioner Allen stated one question, inside of these costs are embedded the decommissioning where I think maybe in your projecting, are decommissioning costs involved in there or not.

Mr. Rodi stated the decommissioning costs are here from what is known. He stated and at the next slide I'm going to make some comments about decommissioning and tie back to Commissioner Diesen's question.

Mr. Beyrle stated this is our next steps, what we're proposing at this point is to continue monitoring where Progress is going, but at this point not to make any commitment to participate in those units. And as well to monitor other possible units in the State, whether they be nuclear or other and keep our options open.

Mr. Rodi stated let me address why we think this is probably our best recommendation to make at this point. If you follow what's happening in Florida as a result of Governor Crist's Executive Orders and all of the different activities that are underway. I don't know if I sent you yet another report on the climate change, it's another ten pounder, I'll have to get this to you, it's interesting reading, doesn't have a lot of facts, but again this particular report is Governor Crist's Action Team on Energy and Climate Change. What we do know is that the coal plants, unless they're gasified, have been taken off the table. Nuclear seems to be receiving political support to move forward. We're seeing very disappointing, and we meaning the industry, are seeing very disappointing RFP results for renewables in Florida. We know that G.E. and Siemens are heavily investing in renewables, so those are some big players and most of their activity has been off shore. What we also know is that in our decommissioning costs are questions about whether the spent fuel will ever be taken to Yucca Mountain. I think \$17 billion has been acquired by the Federal government for disposal at Yucca Mountain but there are IOU's, meaning like I owe you this, someone took most of that money for regular government programs, so the question becomes, is it funded or not funded. At the same time we have been paying for a second storage system that was suppose to be covered in the decommissioning costs that we already paid in. So will there be an additional charge, almost doubling what has been paid so far, for nuclear spent fuel. Likewise the fight is heavily engaged as to whether Yucca Mountain is technically feasible. So there's an enormous battle that's occurring right now over that issue because of the ramp up that's occurred on the nuclear front.

Mr. Rodi stated I think probably in reference, one of the remaining core issues is the commercial aspect of all of this, what kind of contract are we going to end up with when we're done. For example if they build the plants, they have to build the transmission in order to get the power out. Will we have ownership rights in that transmission? If we don't have ownership rights but own part of the plant, then we'll left to however well the power can be flowed. We need to look at what the total costs are going to be and I'm hypothesizing. I'm not quoting facts or actual events, I'm hypothesizing. If we say, well, how much is this going to cost and we're told well I don't know but maybe, from here to here, but we won't know until we get there. If you put it into the context of buying a home and you say well how much is this going to cost? Well, let me draw up the plans

(2) Status Update of Nuclear Option – Levy Project (cont.):

and do that first and then I'll give you the bill. Then you say well how much is the bill going to be, is it going to be this big or that big? Well, I'll just give you the bill. Then when you say okay, how much is the whole house going to cost and how big is it? The answer is we won't know until we do it. That doesn't sound prudent to enter into within the constraints of the public arena and you can't get these things down rock solid. So, we think that there's a lot of activity occurring right now in Florida. We know there are merchant operators talking nuclear to other utilities other than Progress and FP&L. FP&L's going to build a couple of plants too, they're going to, I think, play with the G.E. consortium. But in addition to them, there are others who are saying well we can build a nuclear plant here or there and then again using confidentiality agreements and that may have more of a competitive undertaking to it. But, that's still the same issue. If even we were given details, the only way I could talk about this is to take each of you individually and tell you, not poll you, but tell you, here's the costs, here's what happening, and then call a meeting, say something and everyone say x, y, or z. Well if you're sitting on that side of the dais (public side) you say wait a minute what's in this, what's the premise of your judgment or your decision. I think that puts everyone in an untenable position at this point.

Mr. Rodi stated I do think that there's so much confusion right now about what's available or not available and there are other technologies. If you think about this from a perspective of if you have on the high end 11 cent kWh at the bus, then you add 2 cents for transmission at that point, and then you add the T&D costs, our T&D costs, so maybe another 4 cents; guess what you're at subsidized solar costs. Now I don't know, but if you look at the crossovers on some of these things and indeed if solar, the next generation on thin film comes through, you end up with inexpensive solar panels. And, there are new wind turbines that actually don't have big props on them. Jay Leno has been pushing them, I don't know if you've seen any of that. Here's a guy with literally hundreds collector cars and he's powering his garage with solar and wind. He's totally dedicated to it, but what he's actually promoting is some very sophisticated next generation of wind and solar power. In the craziness of everything that's happening, the distributed generation concept is getting closer. Kevin Schweitzer, we're working with him because he's trying to end up with a zero energy home and he's doing wind and solar. You know how creative he is; he's just wonderful. But he's one of the pioneers and obviously 10 years out, we don't know what might happen in five years, but it seems as if a number of these projects are starting to get into the range where they can be legitimate alternatives to conventional central plants.

Mr. Rodi stated so we think we're better off monitoring the market, there'll be other nuclear plants. If I think we want to hop on board, we might find a different deal, but the fundamentals haven't changed. There's still an issue of what will happen. These (new units) are well designed. The new designs are called passive, meaning that you're not relying upon pumps, etc., but you're using gravity. There's a lot of good hard work that went into this so the risk of some event is less but you're still dealing with the fundamental nature of the beast. This is a radioactive event and we still have, as crazy as it may sound, security issues. However, the security at plants is phenomenal, but you can still have some incident there. I think FP&L had one where they said it wasn't terrorist related. The hole that was cored (in a piping system) just happened to be some malcontent. Well, I don't know about any of that, but if you have some real issue and you're an owner; and, we are an owner, then this is a further obligation. So our recommendation, and I would ask for a motion, that we not move forward with this particular commitment with Progress Energy and continue to monitor the market and continue to look at alternatives that allow for distributed resources for us,

(2) Status Update of Nuclear Option – Levy Project (cont.):

get us off the grid, get us to renewables, and not be crazy about it. He then asked if that makes sense and offered to answer any questions he did not answer.

Commissioner Allen stated decommissioning costs?

Mr. Rodi stated the paid decommissioning costs, I don't think will cover what will eventually happen. Part of what they're talking about is reprocessing the spent fuel which means then you have to build again new Federal fuel processing plants and then the costs of the yellow cake is starting to sky rocket. So when one gets to the decommissioning costs, the actual concept of decommissioning isn't locked down. We're dealing with half life's of 1,000's of years so everything's inside containment, unless you cut it up and take it away and put it somewhere. The likelihood of the projected cost aren't going to be on target. So I think there's some extreme liability for us right now. It may be that the spent fuel casks that aren't reprocessed into renewable fuel, because you only end up using about like 10% of the fuel rod components, will end up maybe being stored inside containment in these plants as they hit their 60, 80 year mark because they're built with double containment, the old ones are. The new ones (AP1000) only have a single containment so I don't know what they're going to do with that. That's just a guess on my part.

Commissioner Diesen stated did I hear you say that, I kind of in my mind processed it, that Crystal River could end up costing us twice the amount of decommissioning.

Mr. Rodi stated a couple of times maybe, the first, the original plan was to take the spent fuel rods from Crystal River and put them into Yucca Mountain. Well, as I'm understanding it, the money that was there to do that on the Federal government side is gone. So we paid again for something and what we paid for has been used to put them into concrete fuel casks that's stored on site. So the next step is if you can't put them there, then you have to put them some place else, and right now you can't put them inside containment. So the issue of what to do with spent fuel has to be solved again. Part of the answer that's being tendered right now is to build reprocessing plants because there's still a lot of energy left in the uranium that is regarded as spent. So that means building plants that are part of the elimination, if you will, of those spent fuel rods so those become part of the costs. And the second aspect is if indeed you finally have to store it some where and there isn't any money, then they're going to come back and say we need more money for doing this because we've used it all up on something else. Now, have you seen, at a Federal level, where they have borrowed money from some program, ever seen it going back?

Commissioner Diesen answered not so much.

Mr. Rodi stated not often, so I don't know what the long term liability is and I'm obviously speculating. I'm again not the expert in this area, but I have seen enough that makes me take the position that I don't think we want to venture down this road right now. Who knows this could be the next best thing because of the scale. One of the issues, and Commissioner Allen touched upon it, is that there are decommissioning needs, meaning the plants are going to go off line. Then that also means you have to replace that power. If they started building nuclear plants today they can't build them fast enough to replace retirement plants on both the fossil side and the nuclear side. So that's one issue in and of itself that we're facing. The second issue goes to simply how much power the country uses. Energy has been remarkably inexpensive in this country, even with gasoline now

(2) Status Update of Nuclear Option – Levy Project (cont.):

at \$3.20 a gallon, in Europe they're pushing \$5 and \$6 a gallon; and it's been that way for a long time. Water is very inexpensive in this country. There are some evolving issues that strategically we need to position ourselves very well and I don't see the need to rush forward in this because it's here. I think it's much more complicated and I do think we may have some shorter term alternatives, but I think there will be some other answers yet that haven't been presented to us and so I don't want to jump too quickly.

Commissioner Zeller then asked who is pressuring us to make a decision.

Mr. Rodi stated the process; in this case of Progress Energy and their timeline. After we've given our indication, they'll come back to us and say we'll only give you x amount. Around January of this year the first stake goes in the ground saying are you in or are you out. And so what I thought as important for us to do before we get to that crisis point is say I think we need to not invest any more into this and get out. There will be other opportunities I think coming, but the first approach is going to be whether or not we want to move forward with this kind of commitment; so I felt obligated to bring it forward to us right now. Just so you know there's a meeting tomorrow at Progress Energy to talk about the over-subscription.

Commissioner Diesen then asked normally what do they do in those cases, do they reduce this, scale it back so everyone can have a piece.

Mr. Rodi stated yes, and that will be part of the conversation; what methodology should one use to divvy up whatever amount might be available. Understand that this is also very complicated for Progress in that I think they might need financing partners but they can't afford to give away too much because of their own requirements for load and CO2 reductions, they're much more impacted than we will be in their ability to react. So that I think is all a part of this so this is the first one out of the shoot that we have something tangible in.

Commissioner Zeller stated but are they asking us to commit to \$51 million.

Mr. Rodi stated not at this point but we're interpreting that when we say we want 12 MW's, it's going to be about \$51 million.

Commissioner Zeller stated but there's no guarantee that it's going to be \$51.

Mr. Rodi stated that's right, it might be more, it might be less, we don't know.

Commissioner Diesen stated you said they need financial partners.

Mr. Rodi stated well that's speculative on my part.

Commissioner Diesen stated I have a really convoluted question about all this, they're divvying up the power because they know what they can generate at capacity once they're built, right, that's a finite number.

(2) Status Update of Nuclear Option – Levy Project (cont.):

Mr. Rodi stated yes, and understand something else, they have the capability to build these plants, they are very sophisticated. For example, if all the municipalities got together do you think we should build a nuclear plant? I don't think so.

Commissioner Diesen concurred.

Mr. Rodi added but Progress Energy has built nuclear plants, Florida Power & Light has built, Entergy has built, Southern Company has built, UniStar has built. So you need that level of sophistication and then added so we're tagging along with this.

Commissioner Diesen stated okay but here's my question, they have finite amount that will come out but they don't know for sure what the need will be for their own, they can speculate, extrapolate and use all the formulas in the world but they don't know exactly what they're going to need for their own use.

Mr. Rodi stated no, I think they do.

Commissioner Allen stated they do.

Mr. Rodi stated what this is all about is if they can sell out on the market. There is very little base load capacity left in Florida so when Mr. Beyrle buys, what he's buying is the intermediate level or our Field Street level. What they're hoping for is when they use the merchant aspect of a plant that during the peak demands when utilities in a few months make their whole years profit that they will have capacity that is competitive in pricing with the high cost gas. That's why I brought up the natural gas thing, high cost intermediate units, where before they were more competitive, now with natural gas prices going through the roof assumably nuclear would be cheaper and they can sell off all of that very quickly during peak periods. And with oil at \$100 a barrel, our oil fired units over there, at \$2.00 we were talking about 25 cents, it may be 40 cents.

Now the reality is if you don't have power, 40 cents a kWh may be worth it, but who knows. The motive is to retain as much as you can so that you have that merchant ability because if someone else isn't a co-owner you could still sell them purchase power, you can make agreements with them and you can reserve things for peak periods. So what we're caught in is this very complex competitive model, control of power model. You have outside groups just like when Duke tried to build something here and FP&L just really went after it. So all of this is back in play and part of the presumption of the Energy Policy Act was wholesale competition. And if you look at the effects of deregulated areas, of which I have first hand experience again, the cost of power generally in deregulated areas is much higher than it is for the old integrated controlled monopolies. So with that in mind they know exactly how much they need, they know what their growth forecasts are, they're trying to understand how best to advantage themselves and again understand they don't have to do anything except talk to us; and, that they're doing.

Commissioner Diesen stated okay you've clarified that issue because I thought there was a whole lot of other under stuff going on. So now we're back to FP&L's point now of solar not looking so bad because that and the wind, they're really going out.

(2) Status Update of Nuclear Option – Levy Project (cont.):

Mr. Rodi stated sure, what I'm referring to, and I think I sent you that article of some of the new technologies where you use flat mirrors to concentrate the sun onto a tube that generates steam as opposed to some of the more sophisticated methods, but there's a lot of evolution coming and regardless of the debate over carbon dioxide. He added understand that we as human beings are carbon dioxide emitters so it makes you wonder about where all of this is going; you only get to exhale half as much. But it becomes extremely serious from a perspective of an energy consuming nation of all of the waste, we're chasing tremendous opportunity for efficiency and conservation here and I think over a long time this utility has done that. So it's obvious that the first step is use it wisely and chase all of those things. Shell and other big energy companies are investing very heavily in that market. We haven't yet seen the effect of the carbon dioxide cap and trade issues which is going to be a big money market, greater than I think energy is the way it will turn out. The effects then of new technologies because of the increasing price of the traditionals, either through indirect taxing or the effects of the marketplace, then make them competitive. The end result is the level, the platform of energy costs is going up. So we're on the edge of that change and so that's why we want to push efficiency and conservation; to take that step.

Commissioner Diesen stated and we're so small that we could get squashed in the process.

Mr. Rodi stated but we also have tremendous flexibility. Understand that we can act quickly and if we take pieces of this at a time without big commitments it may stay within our budget. We may be able to have others upfront some of this and then we just have purchase power agreements because there are tremendous opportunities for the private sector to get incentives, tax credits, and emissions credits that we can't partake in because of our municipal nature; but, others can. Then maybe the deal is something in between and we're working with a couple of R&D projects right now that might have that opportunity for us. So a small incremental increase, step-by-step with us, can put us in a pretty good position here.

Commissioner Diesen stated I'm just glad we have you here.

Mr. Rodi thanked Commissioner Diesen.

Chairman Spangler stated I was going to take some exception to focusing on 8 to 11 cent nuclear energy without speculating as to what all the other energy sources might have climbed to by that time. It might still be a tremendous bargain but I basically get the point. Then my other question is if all of these renewable energy sources are going to be mandated by the government then there's your demand again. In a market driven utility economy as soon as that demand increases the cost of that is going to go up so what I'm looking at very crudely is we're going to be paying a lot more for our energy no matter what the source, but the best deal for us in the end, with carbon taxes and everything else, is still ultimately going to be solar and that may be the way the whole country goes too. So we're not really looking at lower energy costs, we're looking at energy costs that we don't even want to think about what they might be and we can just sit here like everyone else and it's just going to happen. So what we're really saying is in the long run we probably want to drift towards solar, we're hoping the technology and the availability will catch up to our needs, and we're saying in the meantime where we're totally vulnerable like everybody else, what we're going to try and do is chip away at our energy needs and hope that some of these innovative techniques can do some good for us. But based on what I hear then I think what we're looking for is a motion to not move

(2) Status Update of Nuclear Option – Levy Project (cont.):

forward with commitment to this nuclear energy. He added so if no one has any comments and would like to make that motion.

Commissioner Diesen stated I'll make that motion because I think after what we heard this morning I think we'd be a little premature and not thinking through clearly and I think we owe it to the citizens and the ratepayers to absolutely make sure we're making the best move. So I would make that motion that we not commit ourselves at this point in time to the Progress Energy nuclear plant.

Commissioner Hall stated doesn't that first bullet right there contain our motion, continue monitoring activity but make no commitments, in a general way instead of zeroing in on Progress Energy, that does cover Progress Energy.

Commissioner Diesen then asked Mr. Rodi do you want it to be more general rather than its Progress we're dealing with?

Mr. Rodi stated there are two aspects of it. One is as long as it would include Progress I'm okay. I'm also suggesting that by that first item that nuclear in general should not be committed to and that because of all of the things we talked about, I don't perceive that any of the other plants are going to be that different in their fact patterns than this project, but I do think we need to continue to monitor it and bring it to you should we find something that is different than the discussion we've held here today.

Commissioner Diesen stated I'll withdraw my motion and let Commissioner Hall make the motion.

Commissioner Hall stated well why don't we just take that first bullet and add including Progress Energy to it.

Mr. Rodi stated yes.

Chairman Spangler stated will that work, okay.

Commissioner Hall then stated so moved, a motion to continue monitoring activity but make no commitments to nuclear energy, including Progress Energy's Levy Project. Commissioner Allen seconded the motion and it passed unanimously on a roll call vote.

Mr. Bob Tolley addressed the Commission and stated his name then his address as Fairway Drive. He stated there's been a lot of negatives up on the screen today but it's all been coming. I compliment Mr. Rodi and Mr. Beyrle for doing all the work that they've done but there's a hell of a squeeze play going on and I think he explained it all to you today. All the big guys would like to see these little municipalities just go by the way stream so that they could control it all. But there is some good news here on the forefront; we do have options available to us. I met with Mr. Rodi, I'm going to say two months ago, everything gets a little blurry with time frame lately, and he's been waiting for me to come back but I've been a little sidetracked by some other important issues that's kept discussions between he and I and some other renewable people I guess on the back burner. But there are some great things out there, I can tell you even as of today we continue to have discussions with four entities, from both the UK and Ireland. We're still trying to push forward on the ocean

(2) Status Update of Nuclear Option – Levy Project (cont.):

energy, that I believe is a mainstay. The last year I've been working out in Ocala with the manure program, manure right now is just as expensive as gold so I've kind of wiped my hands of the issue really. The only manure I find now is the stuff I step in, it's gotten absolutely crazy and Mr. Rodi is right. So we've been all around the gamut, we've focused here and there, and we've come right back to our little home town. But with all the negatives you've heard today, there are some wonderful things happening in addition to solar. I believe Mr. Rodi is right, I think solar is coming but I think in the next couple of months you're going to hear some pretty neat things coming to give us alternatives that will provide us with electricity costs here far cheaper than what you're seeing on the screen or what nuclear can provide. So there's some great things still happening, just give it a little more time, and you'll see it coming your way.

(3) Possible Other Business – Time for Commissioners:

Chairman Spangler confirmed all were ready for Commissioner time.

Commissioner Allen stated after the presentation and having looked out and seen how over the years we've been running pretty smooth, we look and we see the transmission constraints that's been going on for the last few years and we see the needs for resources. About a year ago we had a discussion on our power supply and at that time there were a couple of our prime contracts that would be coming to an end at the end of this year. You know it brings a little concern to my mind having set on the other side over there, and having sat in the chair that Mr. Beyrle sits in, and to think about power supply. To think about the needs of providing reliable energy to our customers and to keep the lights on. If you get an Alberta clipper coming down, and we haven't had one in a long time, and even with the good power supply that you thought you had planned out, that you're going to import in, and even planning ten days out and securing resources, and then all of a sudden everybody calls and says I can't supply you. You start rotating blackouts for six hours in the evening, and begin at 5:00 a.m. in the morning until 9:00 a.m., and you do that for a couple of days.

Commissioner Allen stated so there's a lot of concern on my side of really looking at where we've been talking a lot of stuff looking outward, looking over the hill, we need to look beyond the hill. There needs to be a look even closer than looking a long ways out. Looking at our power supply and thinking about Governor Crist and his looking at energy needs and looking at being conservative and conservation. We have 12% of our resources in nuclear and we look and think about there needs to be a study and a thought process on our part of how to balance out our resources. We haven't had resources locally, of any size, to help on the transmission end and the east coast is fairly weak because all the resources are elsewhere. We've gotten to this place because we weren't forward looking 20 years ago in planning, building a resource locally. We have that opportunity now, I believe, as we look at renewables, we look at conservation. There has to be a balance also looking at the building industry and what we think about as the next generation of solar comes in. If each home had the ability to reduce their demand on peak with a little bit of solar, it would go a long ways for the economics of the entire community. So there's a lot for us to look at in that aspect.

Commissioner Zeller stated in the last month I visited with Mr. Beyrle and Mr. Mitchum and then I went out to the waterworks. We have quite a complicated little city here with the power distribution and the water lines and I enjoyed visiting with the gentlemen that run it and their attitude is very

(3) Possible Other Business – Time for Commissioners (cont.):

good, they think very highly of their boss, and I learned a lot. I also had an energy audit at one of our properties and learned how wasteful one light bulb is and I think we ought to continue that. I thought I was aware of what I was doing but obviously I got educated and I'd like to see us continue that.

Mr. Rodi stated we are.

Chairman Spangler commented two votes for conservation.

Commissioner Diesen stated I'll vote for conservation any day but I'd like to broach another subject. I'd like to talk about Mission Oaks because there seems to have been a turn of events.

Commissioner Diesen stated so could you update us and let us know exactly what's going to happen.

Mr. Rodi stated okay. If we start at the beginning, it started with the widening of 10th Street for the new high school. And for those of you who lived through that period of time, there was a great deal of concern about the utilities that would need to be relocated along 10th Street and the costs involved. The U.C. spent over half a million dollars, that essentially did nothing for our system, to relocate the lines. One of the options we chose was to no longer serve Mission Oaks because that line relocation, just for Mission Oaks, would cost anywhere from, if I'm remembering right, \$125,000 to \$250,000 to serve 44 customers. So obviously if we went to them and said do you want to give us \$3,000 to \$6,000 (per resident) to provide for the relocation, I don't think that would have been very good. At that same time, because there was a lot of political involvement on the part of any number of County and City representatives about getting the issue resolved, it was pointed out to me by the then New Smyrna Beach City Manager that there had been for some time the need to straighten the boundary for water and wastewater services between Edgewater and New Smyrna Beach. Given that the location of Mission Oaks is significantly to the south of 10th Street and so there have been prior meetings and discussions as to how to accomplish this. So we used the opportunity to formulate an Interlocal Agreement whereby the water and wastewater services would be taken over by the City of Edgewater approximately 30 to 60 days after the line itself would be terminated because of the construction there. The Interlocal Agreement, I think, was first passed by Edgewater in September of 2006 and the Utilities Commission approved it in October 2006.

Mr. Rodi stated to this day, the reconnection of this line to the Edgewater system has not occurred. What's happened is the Edgewater truck goes into Mission Oaks subdivision and pumps out two to three times a week the waste and then takes it over to Edgewater's waste plant. The citizenry at this point in Mission Oaks has said this has been going on for a long time, what's going to happen. They went to the Edgewater City Commission, I think in June of this year, maybe in July, and the Edgewater City Commission said they would look into it. Tonight, the head of Mission Oaks has asked to be on the City of New Smyrna Beach agenda to say we aren't getting service and we want to continue to be served by the U.C. At that point when I learned of the appearance, and I don't know why they didn't appear before the U.C., but nevertheless I contacted the City Manager of Edgewater and said it's been some time, when are you going to take this over, and can you give me a status report. The Edgewater City Manager did contact me late Friday, as he had promised, and Edgewater expects to take over that system by January 2008; so in another month and a half. I had

(3) Possible Other Business – Time for Commissioners (cont.):

Mr. White check around a little bit, Edgewater did submit for their DEP permits so that's underway. Quentin Hampton is doing engineering the design for them. And so none of the residents have been billed for sewer service because they're not our sewer customer anymore and Edgewater hasn't billed them either. Edgewater has asked if the U.C. could help facilitate the billing for sewer. I don't think we should or would do it ourselves but we might be able to help. I asked our IT area as to whether or not they can write an extraction report for water that we could just give to Edgewater. Or, they can just send their own meter readers anyhow and plug it into their system. But we'll try to facilitate, and make it more economical if we can. But our rates are different from their rates and there are a lot of issues that I don't even want to touch the billing aspect of it.

Mr. Rodi stated the water side will be transferred also once they get a water line into the area. What has driven all of this delay has been the subdivisions that were incorporated into the City of Edgewater not developing or not moving forward. Edgewater had relied upon those utility systems as the link step to Mission Oaks and it never happened. So that's where it stands right now and I hope the story ends there. The anomaly of all of this is that, I guess back in the 80's it goes back that far, Mission Oaks wanted service from Edgewater and couldn't get service. Back then all of the developments were building package plants, they had their own on-site waste processing like Sugar Mill turned out to be. Then in the mid-90's Mission Oaks could not be served yet because of some issues with the Edgewater plant so Mission Oaks turned around and sued the U.C. and won a settlement agreement that the U.C. would provide service to them back then. So that's how we ended up serving Mission Oaks to begin with. Since that time we've continued to serve them but we certainly can then assign or give those customers to Edgewater who will then provide the service to them.

Commissioner Diesen stated I think they had flooding, I remember something about that.

Mr. Rodi stated there are issues there, they were going to sue the developer and when it flooded the water would go into the sewer system. Then the sewer system would be overburdened and then they raised the tops, the throats if you will, of the manholes so that it would get up above the level. It's just been very challenging time for everyone involved in that.

Commissioner Diesen asked so do we still think they are going to the City Commission tonight?

Mr. Rodi stated I would imagine, yes. I don't know what good that's going to do but the issue has been, and the City of Edgewater is acting on it, they're dealing with some difficult things too, but the commitment was made to have it done by January.

Commissioner Diesen stated and they've been so informed, Mission Oaks?

Mr. Rodi stated I don't know whether they have been. He stated in the course of all of this one of the things I had requested, well before Ms. Klinkenberg's time, was that a notice be sent saying because of the 10th Street widening we're transferring your account to Edgewater, it should occur about in this time. I asked if it was done, I was told yes, but it never happened. Edgewater was suppose to do it from their standpoint, that way the residents would get both messages, but they didn't do it either. So I think from a standpoint of those customers, beyond their frustration, I think they just want to get this thing done. He then apologized for such a long story.

(3) Possible Other Business – Time for Commissioners (cont.):

Commissioner Diesen stated no, I appreciate you giving us the total background. I vaguely remembered it when I was on the Commission back in the 80's that they had a flooding problem. But I'm glad, I appreciate the update. She also thanked Mr. Rodi for his presentation and stated I think that was excellent and not something we wanted to hear, but certainly needed to hear.

Chairman Spangler stated I have a couple of questions on that issue from our counsel. First issue was, do we have the authority after losing the court judgment and being told we were responsible in perpetuity, do we have the authority to transfer that responsibility to another entity like Edgewater.

Mr. Preston stated yes, I think that Mr. Rodi is correct is saying that the obligation can certainly be transferred. The obligation remains, but the service itself can be transferred to the City of Edgewater without issue.

Chairman Spangler stated well does that mean that we are obligated to force Edgewater to service them. I mean how can you transfer the service and not the obligation?

Mr. Preston stated you can transfer the service and not the obligation inasmuch as that we still have that obligation pursuant to the settlement decree to provide the service. This is how we're fulfilling our obligation at this point. The City of Edgewater has not undertaken a form of service, however, the service is still being provided which meets our obligation. It's just being provided now in a removal process rather than a piping process. But the responsibility of Edgewater to meet its agreement with us, that was agreed upon last year, is also their responsibility, to take over the service to Mission Oaks. The court settlement has that umbrella obligation over us as the Utilities Commission which we've met and we've met continually.

Chairman Spangler stated we're saying we met that. Then the other question is when Edgewater finally annexes Mission Oaks, we're still there with the umbrella over the City of Edgewater in perpetuity; and do we want to be there?

Mr. Preston stated until that is, if we wish to take action based on the change of circumstances, legal action at that point.

Chairman Spangler asked that would be reasonable, a reasonable action?

Mr. Preston stated that would be a reasonable action. I think we would want to balance or weigh the fiscal cost of doing that versus the security of having that obligation met by an ongoing infrastructure that had been placed by Edgewater in effect; that's your decision.

Chairman Spangler stated all of that is appropriate considering the history of Mission Oaks starting in the mid-80's, that it would sort of end this way. He asked Mr. Rodi, so the City of Edgewater is going to hook them up next month or in January?

Mr. Rodi stated they said, I'm not remembering exactly, by January 2008, so that could mean the end of January.

(3) Possible Other Business – Time for Commissioners (cont.):

Chairman Spangler stated right, but it's much sooner than the 12 or 13 months they've been pumping.

Mr. Rodi stated yes, and frankly, if you were in the customer's seat you would say when is this going to happen.

Chairman Spangler stated right, and they have not been told that judging by what you know.

Mr. Rodi stated not that I know of.

Chairman Spangler then confirmed Commissioner Hall did not have any comments. He then stated I have a little ex parte action here. Chairman Spangler stated I have engaged in ex parte communications with Jim Morris, Paul Molmberg, Mark Rakowski, and possibly Randy Walter about the U.C. policy concerning utility easements. At this time there's no Commission proceeding scheduled in this matter and there likely won't be, but the purpose of the communications was to obtain information and to encourage the Utilities Commission and Developmental Services of the City to come together and discuss a U.C. policy that no one is real comfortable with. I think that there's just a lot of things that aren't understood by the three parties that I would consider to be parties. One being any developer that has to operate under the system, two, our engineering, and three, City developmental services. I was sort of trying to encourage a meeting, a staff meeting maybe between Mr. White and Mr. Rakowski to clear up for affected parties, meaning developers, exactly what we mean by this easement. That was the purpose of those conversations and I will probably, I don't know what the proper procedure would be to recommend that meeting, but I'll find out. I just think that it's an opportunity for the City and the U.C. to work together and resolve something that apparently nobody's happy with. There may be no resolution but certainly not everybody I think has the same picture, so that was the purpose of my conversations. Other than that, I have no comments.

Mr. Rodi asked if he could add some reference so it might make a little more sense to those who are not as familiar with it as you are or we may be. He stated when we started the infrastructure studies, aside from the enormous costs that we saw, we examined the placement of that infrastructure. Normally, what happens is you can put the infrastructure in the road right-of-way, and just like 10th Street, if you have to move that infrastructure and you're in the road right-of-way, you have to pay for it as the utility. And this is an important point, so when we started to talk with the developers about the installation of the infrastructure and millions of dollars being spent, and I'm talking about large lines going up and down S.R. 44, we also learned that there were discussions, because of the transportation study, that certain roads are likely to be widened. S.R. 44 is a likely candidate because right now, I think, over utilized. Pioneer Boulevard is another likely location and perhaps Sugar Mill Drive. And those areas in particular would be prime areas for road widening. So at that point we had then approached the developers and ourselves to have a 25' buffer for the utilities installation so that this installation would occur on private land in an easement, not own the land, but put it in an easement. So generally what happens when they widen a road, is the State or the County or the City claim another additional amount as right-of-way. So our thinking was then if we had to eventually move because we were in an easement, someone else would pay and not the ratepayers; that's the premise of it. Overlaid on top of this was a new standard to have a vegetation border, coincidentally and in about the same areas that we wanted a

(3) Possible Other Business – Time for Commissioners (cont.):

utility easement. It's been our experience that when a new road right-of-way is established, whatever vegetation is in that new right-of-way gets cut down. So our thinking was, in certain areas, not everywhere in the City, that especially with new development, if we had the front 25', and if we put that someplace else we would need 35'. So it was trying to recognize someone else's land rights, and then if that 25' coincidentally became part of the right-of-way then there would be no impact. And the buffer, it was vegetative buffer, if it was behind it, then it wouldn't be cut down. So then you preserve the thinking. There's great disagreement over whether we should be in front of the buffer or behind it. In recent discussions with some developers, these two opposing views have been talked about. So I will ask simply if Jim White will contact Mark Rakowski and set up a meeting and then we'll go from there.

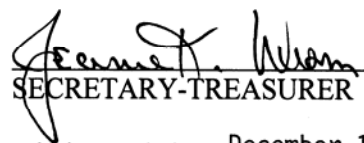
Chairman Spangler commented I presume that we also covered possible other business, so if there's nothing further, we stand adjourned. Chairman Spangler closed the special U.C. meeting at 11:55 a.m.

APPROVED:

ATTEST:



CHAIRMAN



SECRETARY-TREASURER

These minutes were formally approved by the Utilities Commission at their _____ December 17, 2007 meeting.