

QUINQUENNIAL REPORT

FOR THE PERIOD ENDED SEPTEMBER 30, 2006

ELECTRIC SYSTEM

UTILITY BOARD OF
THE CITY OF KEY WEST, FLORIDA

KEYS ENERGY SERVICES





August 31, 2007

Utility Board of the City of Key West, Florida
1001 James Street
Key West, Florida 33040

Gentlemen:

**SUBJECT: Quinquennial Report on the Electric System
 as of September 30, 2006**

We have prepared a Quinquennial Report on the Electric System of the Utility Board of the City of Key West, Florida (the "Utility Board") as of September 30, 2006 (the "Quinquennial Report"). The Quinquennial Report covers the five fiscal years ended September 30, 2006. To the extent deemed appropriate and necessary to fulfill the purposes of this Quinquennial Report, certain subjects have been treated for periods extending beyond September 30, 2006.

Known as the City Electric System for almost 60 years, the public power utility officially became Keys Energy Services ("KEYS") on May 1, 2002 with the unveiling of a new sign and logo at their headquarters on James Street in Key West. The name was chosen to reflect the community, the expanding list of services, and renewed commitment to customer service.

In preparation of this Quinquennial Report, we have relied upon financial, statistical, operating, and certain other data taken from the books, records, official statements, and reports of the Utility Board, information prepared and provided by the Utility Board, and audited Financial Statements prepared by Marva Green P.A., Inc. and Oropeza & Parks, Certified Public Accountants, for the historical fiscal years included in this Quinquennial Report. Nothing contained in this Quinquennial Report is intended to indicate conditions with respect to safety, security, the technical adequacy of any design, the internal physical condition of any facilities, or to conformance with agreements, codes, permits, rules, or regulations of any party having jurisdiction with respect to the ownership, construction, operation, and maintenance of the properties, which matters are outside the scope and purposes of this Quinquennial Report.

Summary

During the five year period covered by this report the Utility Board took certain notable actions to improve operations, control costs and improve reliability including (i) continuing to meet the increasing demand for reliable electricity by its customers; (ii) continuing to be a member of the Florida Municipal Power Agency ("FMPA") All-Requirements Project; (iii) permitting FMPA to install a third FMPA-owned combustion turbine at the Utility Board's Stock Island facility; and (iv) maintaining the Utility Board's work force at an average of approximately 150 employees, and developing hurricane preparation and restoration procedures. During the five year period

covered by this report, the Utility Board was able to provide electric service to residential and commercial customers with no increases in base rates.

While implementing these cost saving measures, the Utility Board was able to continue to provide adequate levels of maintenance on its and FMPA's facilities, reliable electric service to its customers, sufficient revenues to meet its financial obligations, and improved services to customers, and budgeting and record keeping procedures.

The results of our studies and analyses are set forth in detail in the various sections of the Quinquennial Report and are summarized as follows:

1. Operation and Maintenance of Production Facilities

During this five year period, the Utility Board continued to be a member of the FMPA All-Requirements Project, operated and maintained two FMPA owned combustion turbine electric generating units, and began operation of a third FMPA owned combustion turbine electric generating unit. In general, the production facilities are being maintained in a manner consistent with good utility practice. With respect to the general operation of the generating resources, the average availability of all (Keys and FMPA owned) generating resources has been above industry average for the combustion turbine electric generating units, approximately equivalent to the industry average for the medium speed diesels, and below industry average for peaking diesels. Forced outage rates and forced outage factors are lower than the industry average for electric generating units with a prime model of combustion turbines or medium speed diesels. The forced outage factors are higher for electric generating units that are deemed peaking diesels. The Utility Board is continuing to implement programs which are designed to improve the operation and maintenance of the Electric System.

2. Operation and Maintenance of Transmission and Distribution Facilities

The Utility Board has instituted several actions and capital projects to improve system reliability and customer service.

In general, the transmission and distribution facilities are being maintained in a condition consistent with good utility practice.

3. Organization and Management

The Utility Board has or has had prepared on its behalf, annual budgets, audits, and other reports and analyses regarding the Electric System. To assist the Utility Board in the

management of the System, the Utility Board has retained and utilized the services of outside professional firms in the areas of engineering, legal, and finance.

During the five year period the Utility Board's actual average number of employees ranged from 146 to 153 employees.

4. Sufficiency of Rates and Charges

During Fiscal Years 2002 through 2006, the rates and charges of the Utility Board provided sufficient revenues to pay all operating expenses of the System, debt service requirements, all required reserve and other payments, including renewals and replacements, a payment to the City of Key West, and maintain at least 125% of the Debt Service Requirement in each respective fiscal year.

5. Budgeting and Record Keeping

In general, the budgeting and record keeping is consistent with industry standards. During this period, the Utility Board has improved the consistency between various reports. The Utility Board was awarded the Government Finance Officers Association (GFOA) Certificate of Achievement for Excellence in Financial Reporting for its comprehensive annual financial report for the fiscal years ended September 30, 2001 through 2005. The Certificate of Achievement is a prestigious national award, recognizing conformance with the highest standards for preparation of state and local government financial reports.

The Utility Board annually prepares an operating budget for the upcoming fiscal year. Monthly financial and operating statements are prepared to report on the current status of the balance sheet, income statement, operations and maintenance budget, and debt service coverage, as well as provide statistics on power supply, customers, and energy sales.

The Utility Board has improved its financial ratios relative to historical ratios for its current ratio, long-term debt ratio, and interest coverage ratio.

The Utility Board has certain differences with respect to the other Florida generating municipal utilities. Specific differences which affect the Utility Board relative to other utilities include its geographic location, ocean environment, fuel supply, and reliability requirements, among other things.

6. Adequacy of Power Supply

The Utility Board had sufficient total resources to meet its demand and the Utility Board maintained its reliability criteria of maintaining on-island capacity resources to meet 60 percent of the system peak demand during the five year period. It is projected that this policy will be maintained in the future.

Respectfully submitted,

R W Beck, Inc.

QUINQUENNIAL REPORT ON THE ELECTRIC SYSTEM

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This report has been prepared for the use of the client for the specific purposes identified in the report. The conclusions, observations and recommendations contained herein attributed to R. W. Beck, Inc. (R. W. Beck) constitute the opinions of R. W. Beck. To the extent that statements, information and opinions provided by the client or others have been used in the preparation of this report, R. W. Beck has relied upon the same to be accurate, and for which no assurances are intended and no representations or warranties are made. R. W. Beck makes no certification and gives no assurances except as explicitly set forth in this report.

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Section 1

Introduction



Quinquennial Report

This quinquennial report on the electric generation, transmission, and distribution system (the "System") which is owned, operated and controlled by the Utility Board of the City of Key West, Florida (the "Utility Board") has been prepared for the five fiscal years from October 1, 2001 through September 30, 2006 (the "Quinquennial Report") as required by the Utility Board's bond resolution. The Utility Board has had annual, biennial, or quinquennial reports prepared since the Utility Board was initially established in 1945.

The Quinquennial Report is required pursuant to Section 5.01(F) of the bond resolution, as follows:

"The Board shall at least once every five (5) years cause to be prepared by the Consulting Engineer a report or survey of the System, with respect to the adequacy of the management of the properties thereof, the sufficiency of the rates and charges for services, the proper maintenance of the properties of the System, and the necessity for capital improvements and recommendations thereof; ..."

In addition to this introductory Section 1, the sections and matters addressed herein are as follows:

- | | | |
|-----------|---|---|
| Section 2 | - | Description of the System; |
| Section 3 | - | Organization and Management; |
| Section 4 | - | Sufficiency of Rates and Charges for Service; |
| Section 5 | - | Maintenance of Properties; and |
| Section 6 | - | Capital Improvements. |

Authority

The Utility Board was initially created by the City Commission of the City of Key West ("City") and subsequently was established by an Act of the Florida Legislature in 1945. The Utility Board owns, operates and controls the electric system for the production, transmission and distribution of electricity both within and outside the City limits. The present Utility Board was created in 1969 by special Act of the Florida Legislature.

Historical Net Energy Requirements and Peak Demand

The historical annual average number of customers (excluding municipal street lighting, area lighting and other customers), net peak demand, net energy requirements, and load factor reported by the Utility Board for the twenty fiscal years ended September 30, 1987 through 2006 are summarized on Table 1-1. During the five year period 2002 through 2006, the Utility Board's customers increased from 27,002 (excluding lighting) retail customers with net energy requirements of 757.4 gigawatt-hours ("GWh") to an annual average number of retail customers of 27,755 (excluding lighting) with net energy requirements of 755.7 GWh. The annual net peak demand increased from 133.8 to 135.5 megawatts ("MW") during the five year period 2002 through 2006. The system load factor during the last five years has varied from 61 percent to 65 percent.

During fiscal year ended September 30, 2006, the peak demand and the energy requirements decreased from those reported in fiscal year ended September 30, 2005 due to hurricane activity, which resulted in the temporary loss of service.

Electric Revenue Bonds, Issued and Outstanding

During the five fiscal years ended September 30, 2002 through September 30, 2006, the Utility Board did not issue any Electric Revenue Bonds, but had outstanding Electric System Refunding Revenue Bonds, Series 1991 (the "1991 Bonds"), Electric System Refunding Revenue Bonds, Series 2000 (the "2000 Bonds"), and Electric System Refunding Revenue Bonds, Series 2001 (the "2001 Bonds").

The 2001 Bonds were issued pursuant to and under the authority of Chapter 69-1191, Laws of Florida, Special Acts of 1969, as amended, Section 21.14 of the City of Key West Code of Ordinances, and other applicable provisions of law (collectively, the "Act"), and Resolution No. 532 of the Utility Board, adopted on November 13, 1985, as amended and supplemented by Resolution No. 558 adopted on April 27, 1988 and by Resolution No. 678, adopted on September 8, 1999 (collectively, the "Original Resolution") and particularly as supplemented by Resolution No. 693, duly adopted by the Utility Board on February 14, 2001, as supplemented by Resolution No. 694, adopted on March 29, 2001 (collectively, the "Bond Resolution" and together with the Original Resolution, the "Resolution"). The City approved the issuance of the 2001 Bonds pursuant to Ordinance No. 01-03 enacted on March 20, 2001, in accordance with the provisions of the Act.

The 2001 Bonds were issued to (i) refund a portion of the Utility Board's outstanding Electric System Refunding Revenue Bonds, Series 1991 (the "1991 Bonds"); (ii) purchase a policy of municipal bond insurance; and (iii) pay the costs of issuance of the 2001 Bonds.

The 2000 Bonds were issued pursuant to and under the authority of the Act, the Original Resolution, and particularly as supplemented by Resolution No. 654, duly adopted by the Utility Board on February 25, 1998, as supplemented by Resolution No. 657, adopted on May 18, 1998. The City approved the issuance of the 2000

Bonds pursuant to Ordinance No. 98-13, enacted on April 7, 1998, in accordance with the provisions of the Act.

The 2000 Bonds were issued to (i) refund a portion of the Utility Board's Electric System Revenue Refunding Bonds, Series 1987 (the "1987 Bonds"); and (ii) pay the costs of issuance of the 2000 Bonds. Prior to the issuance of the 2000 Bonds and 2001 Bonds, the Utility Board issued \$22,067,785 principal amount of 1991 Bonds. On October 19, 2006, the Utility Board issued \$42,000,000 Electric System Refunding and Capital Improvement Revenue Bonds, Series 2006, (the "2006 Bonds").

The outstanding principal amount of bonds at September 30, 2006 is shown on Table 1-2. All outstanding bonds are insured by AMPAC and are rated "AAA" by Standard and Poor's Rating Service ("S&P").

The Utility Board has entered into a loan agreement with FMPA. Pursuant to the terms of the agreement the payment of the principal and interest on outstanding balances are junior and subordinate to the payment of principal and interest on all outstanding bonds. At September 20, 2006, the outstanding loan balance was \$948,000.

The 2006 Bonds were insured by MBIA and were rated by Moody's Investor's Service ("Moody's"), and S&P "Aaa" and "AAA", respectively. The underlying ratings assigned to the 2006 Bonds by Moody's and S&P were "A2" and "A-", respectively. The ratings reflect only the views of such organizations and no assurance is given that such ratings will continue or that such ratings will not be revised downward or withdrawn.

Flow of Funds

Figure 1-1 is a flow chart showing our understanding of the disposition of revenues under the Resolution. This flow chart does not purport to be a legal interpretation or a complete summary of the disposition of revenues, and reference is made to the Resolution referred to herein for further information regarding the disposition of revenues and other matters regarding the bonds.

System Regulation

The Electric System is subject to regulation by State of Florida and federal agencies. Unlike most investor owned electric utilities in the United States, the Florida Public Service Commission (the "FPSC") has limited jurisdiction over governmentally and cooperatively owned electric utilities to prescribe the systems and classification of accounts, to prescribe rate structure, to require conservation and reliability, to approve territorial agreements, to require the filing of periodic reports, to prescribe and enforce safety standards, to establish rules pertaining to cogeneration and power production and to impose a regulatory assessment fee. The Federal Energy Regulatory Commission (the "FERC") has limited jurisdiction over the System in matters pertaining to transmission services, hydroelectric facilities and reporting requirements.

Many, if not most environmental regulations established by the U.S. Environmental Protection Agency (the "EPA") as well as State of Florida regulations, are

Section 1

administered in Florida by the Department of Environmental Protection (the "FDEP"). In addition, the FDEP promulgates rules and regulates the System's environmental performance and the siting and environmental licensing of new generation and transmission facilities. With regard to certain security issues, the System is subject to the jurisdiction of the U.S. Coast Guard.

Security Issues

Following the terrorist attacks of September 11, 2001, increased emphasis has been placed on addressing security measures for the infrastructure systems and facilities throughout the United States. Terrorist activities aimed at the System could impact the operation of the System and interfere with the ability of the Utility Board to provide service and generate revenues. Additionally, terrorist activities have the potential to affect organizations other than the Utility Board, the continued performance of which is critical to continued operation of the System.

The Utility Board reports that it has undertaken an updated review and has implemented certain additional security measures following the events of September 11, 2001. However, we have not conducted any independent evaluations or on-site reviews to ascertain the effectiveness of the measures the Utility Board has undertaken to address the security issues.

Hurricanes

In 2005, Florida experienced four substantial hurricanes: Hurricane Dennis, Hurricane Katrina, Hurricane Rita and Hurricane Wilma. The physical operations of the Utility Board were not disrupted; however, customers of the System were affected causing loss of electricity for many customers. Such loss contributed to a reduction in sales in the Fiscal Year ending September 30, 2006. As a result of hurricane preparedness efforts, in each of the 2005 hurricanes, all affected customers had their power restored within six days and the vast majority of customers were restored within two days. Since 1998, of the \$13,252,237 in direct hurricane mitigation and repair costs \$11,888,462 (90%) was reimbursed by the Federal Emergency Management Agency greatly mitigating any financial impacts to the Utility. Although the Utility Board cannot predict the level of hurricanes or other catastrophes in the State of Florida, the Utility Board takes many preventative measures to mitigate the time a customer is without electricity, thus decreasing any loss in sales. Such measures include the annual review of its hurricane preparation plan, the pre-approval of contracts for line workers; budgeting of funds for the distribution facility in connection with disaster; and monitoring of equipment to keep it above flood level.

Factors Affecting the Electric Utility Industry

The electric utility industry is in the process of being "de-regulated" at federal and local levels. This process may impact the financial results of operations for electric utilities, such as the Utility Board, by opening up previously restricted service territories to competition for customers and in other ways.

The Energy Policy Act of 1992 (the "Energy Policy Act") made fundamental changes in the Federal regulation of the electric utility industry, particularly in the area of transmission access. These changes are expected to increase competition in the electric utility industry. The Energy Policy Act amended, among other sections, sections 211 and 212 of the Federal Power Act.

On April 24, 1996, FERC issued two final rules and a Notice of Proposed Rulemaking ("NOPR") to address and implement the transmission access provisions of the Energy Policy Act. Order No. 888 established the terms and conditions under which open access would be provided, and Order No. 889 established the rules of conduct surrounding the provision of open access, notably the separating of marketing from transmission and power operations. Municipally-owned electric utilities including the Utility Board are not subject to FERC jurisdiction under these orders but may be denied reciprocal transmission services from a FERC jurisdictional utility if they do not offer comparable transmission services.

In December 1999, FERC issued its Order No. 2000. Order No. 2000 represents a further measure in FERC's attempt to foster competition in wholesale power markets by encouraging all transmission-owning utilities, including municipal utilities, electric cooperatives and other public power entities, to join Regional Transmission Organizations ("RTO"). The implications of Order No. 2000 were further clarified and broadened when FERC issued its NOPR for a standard market design ("SMD") to accompany the formation of ISO/RTOs. Although this has occurred in many areas of the country, interest in forming such an organization in Florida seems to have diminished. The 2005 Energy Policy Act has further defused the impact of Order 2000 by making the SMD non-mandatory.

Florida has a longer history of quasi open-access transmission than many other parts of the country. An "Energy Broker" system was adopted in the late 1970's to promote efficient generation dispatch. The Energy Broker was eventually replaced by a strong system of bilateral agreements in the aftermath of Order Nos. 888 and 889. In Florida, considerable effort went into attempting to develop a workable ISO/RTO structure called "GridFlorida" pursuant to Order No. 2000. GridFlorida received provisional FERC approval but not PSC approval (the ability to put GridFlorida costs into investor owned utility rate bases was withheld by the PSC). Additional studies have shown GridFlorida not to be cost effective for Florida. A motion was filed with the PSC to close GridFlorida.

The Energy Policy Act of 2005 (the "2005 Energy Policy Act") was signed into law on August 8, 2005. The 2005 Energy Policy Act addresses, among other things, energy efficiency; appliance standards; low income energy assistance programs; renewable energy; nuclear energy; electricity; and provides incentives for oil and gas production and encourages deployment of clean coal technology. The electricity portion of the bill addresses the following area: (i) the need for modernization of existing transmission facilities, transmission rate reform and improved operations of existing transmission facilities; (ii) electric reliability standards; (iii) Public Utility Holding Company Act ("PUHCA") and Public Utility Regulatory Policies Act ("PURPA") amendments (including repeal of PUHCA); (iv) market transparency, round trip trading prohibition and enforcement; and (v) merger reform. The 2005

Section 1

Energy Policy Act imposes mandatory electric reliability standards to be defined through North American Electric Reliability Council and enforced by FERC.

The 2005 Energy Policy Act also provides for tax incentives that further encourage production, conservation and the use of technology to stabilize energy prices and protect the environment.

It is not possible at this time to predict the final forms and possible effects of all the consequent rulemaking and programs that will be enacted to implement the 2005 Energy Policy Act.

In March 2005, the EPA issued the Clean Air Interstate Rule (“CAIR”) to permanently cap emissions of sulfur dioxide (“SO₂”) and nitrogen oxides (“NO_x”) in the eastern United States. At the same time, the EPA issued the Clean Air Mercury Rule (“CAMR”) to permanently cap and reduce emissions throughout the United States. CAIR will result in a reduction of SO₂ emissions by over 70 percent and NO_x emissions by over 60 percent from 2003 levels. CAMR will reduce utility emissions of mercury from 48 tons per year to 15 annual tons, a reduction of almost 70 percent. Both programs establish a cap-and-trade system based on EPA’s current Acid Rain Program, which has produced remarkable results, reducing SO₂ emissions more effectively and efficiently than expected, and resulting in significant environmental improvements. The EPA’s rules include model cap-and-trade programs that states may adopt; however, states are allowed some flexibility in the implementation of the programs. Florida electric utilities are participating with the FDEP in the development of the CAIR and CAMR programs for the State.

With the advent of energy market deregulation in the United States, volatility in energy commodity prices has risen significantly. These market changes have created the potential for both new risks and an increase in the magnitude of existing risks to which all organizations involved in energy market transactions are potentially exposed. Potential sources of risk include, but are not limited to, financial risk; operational risk; legal risk, and regulatory risk. In general, the Utility Board relies on FMPA to conduct energy market transactions on its behalf through the All-Requirements Project, which is discussed in Section 2 of this Report. Review, evaluation, or analyses with respect to the energy risk management practices of the Utility Board or related organizations, such as FMPA, are beyond the scope of this Report. We have not been engaged to conduct, and in fact have not conducted, any independent review, evaluation, or analysis in this regard for purposes of this Report.

Other factors affecting the electric utility industry include increasing environmental requirements and changing technological advances in electric power production.

It cannot be predicted what effects any of the preceding factors may have upon the Utility Board or its operations.

Table 1-1

UTILITY BOARD OF THE CITY OF KEY WEST

Historical Customers, Peak Demand and Energy Requirements

Fiscal Year Ended September 30	Average Number of Customers		Net Peak Demand [2] (MW)	Percent Change (%)	Net Energy Requirements (GWh)	Percent Change (%)	Load Factor (%)
	Excluding Lighting [1]	Percent Change (%)					
1987	19,812	-	75.8	-	444.9	-	67%
1988	20,554	3.75%	79.5	4.88%	449.5	1.03%	65%
1989	21,009	2.21%	82.6	3.90%	486.6	8.25%	67%
1990	21,677	3.18%	87.5	5.93%	509.0	4.60%	66%
1991	21,828	0.70%	90.0	2.86%	525.2	3.18%	67%
1992	22,708	-	93.4	-	517.7	-	63%
1993	23,217	2.24%	101.0	8.14%	557.6	7.71%	63%
1994	23,693	2.05%	101.4	0.40%	591.9	6.15%	67%
1995	24,092	1.68%	110.7	9.17%	623.0	5.25%	64%
1996	24,650	2.32%	109.9	-0.72%	633.9	1.75%	66%
1997	25,160	2.07%	119.7	8.92%	669.4	5.60%	64%
1998	25,653	1.96%	129.0	7.77%	681.4	1.79%	60%
1999	25,986	1.30%	129.8	0.62%	692.8	1.67%	61%
2000	26,665	2.61%	128.0	-1.39%	707.0	2.05%	63%
2001	26,790	0.47%	129.0	0.78%	720.6	1.92%	64%
2002	27,002	0.79%	133.8	3.72%	757.5	5.13%	65%
2003	27,269	0.99%	138.9	3.81%	793.9	4.81%	65%
2004	27,496	0.83%	139.7	0.58%	781.3	-1.60%	64%
2005	27,793	1.08%	145.5	4.15%	781.1	-0.02%	61%
2006	[3] 27,755	-0.14%	135.5	-6.87%	755.7	-3.26%	64%
Compound Average Annual Growth Rate: (2001-2006)		0.71%		0.99%		0.96%	

[1] For purposes of depicting customer growth, the average number of customers excludes customer accounts for municipal, area, and recreational lighting.

[2] Net 60 minute integrated demands.

[3] The amounts reflect the effects of hurricanes that resulted in the temporary loss of service.

Table 1-2

UTILITY BOARD OF THE CITY OF KEY WEST

Outstanding Principal Amount of Bonds as of September 30, 2006

No.	Description	<i>Electric Revenue Refunding Bonds, Series</i>			Total
		1991	2000	2001	
1	<i>Dated</i>	July 18, 1991	May 18, 1998 June 16, 2000	May 17, 2001	
	Rating by				
2	Standard & Poors [1]	AAA	AAA	AAA	
3	Issued [2]	<u>\$22,067,785</u>	<u>\$63,405,000</u>	<u>\$11,800,000</u>	<u>\$97,272,785</u>
<u>Principal Amounts</u>					
Retired or Refunded					
4	1993	45,000	0	0	45,000
5	1994	45,000	0	0	45,000
6	1995	50,000	0	0	50,000
7	1996	50,000	0	0	50,000
8	1997	55,000	0	0	55,000
9	1998	475,000	0	0	475,000
10	1999	500,000	0	0	500,000
11	2000	530,000	0	0	530,000
12	2001	11,645,000	0	0	11,645,000
13	2002	595,000	2,720,000	225,000	3,540,000
14	2003	0	3,725,000	785,000	4,510,000
15	2004	0	3,920,000	810,000	4,730,000
16	2005	0	4,140,000	830,000	4,970,000
17	2006	<u>0</u>	<u>4,370,000</u>	<u>860,000</u>	<u>5,230,000</u>
	Total Retired or				
18	Refunded	<u>13,990,000</u>	<u>18,875,000</u>	<u>3,510,000</u>	<u>36,375,000</u>
19	Total Outstanding [3]	<u>\$8,077,785</u>	<u>\$44,530,000</u>	<u>\$8,290,000</u>	<u>\$60,897,785</u>

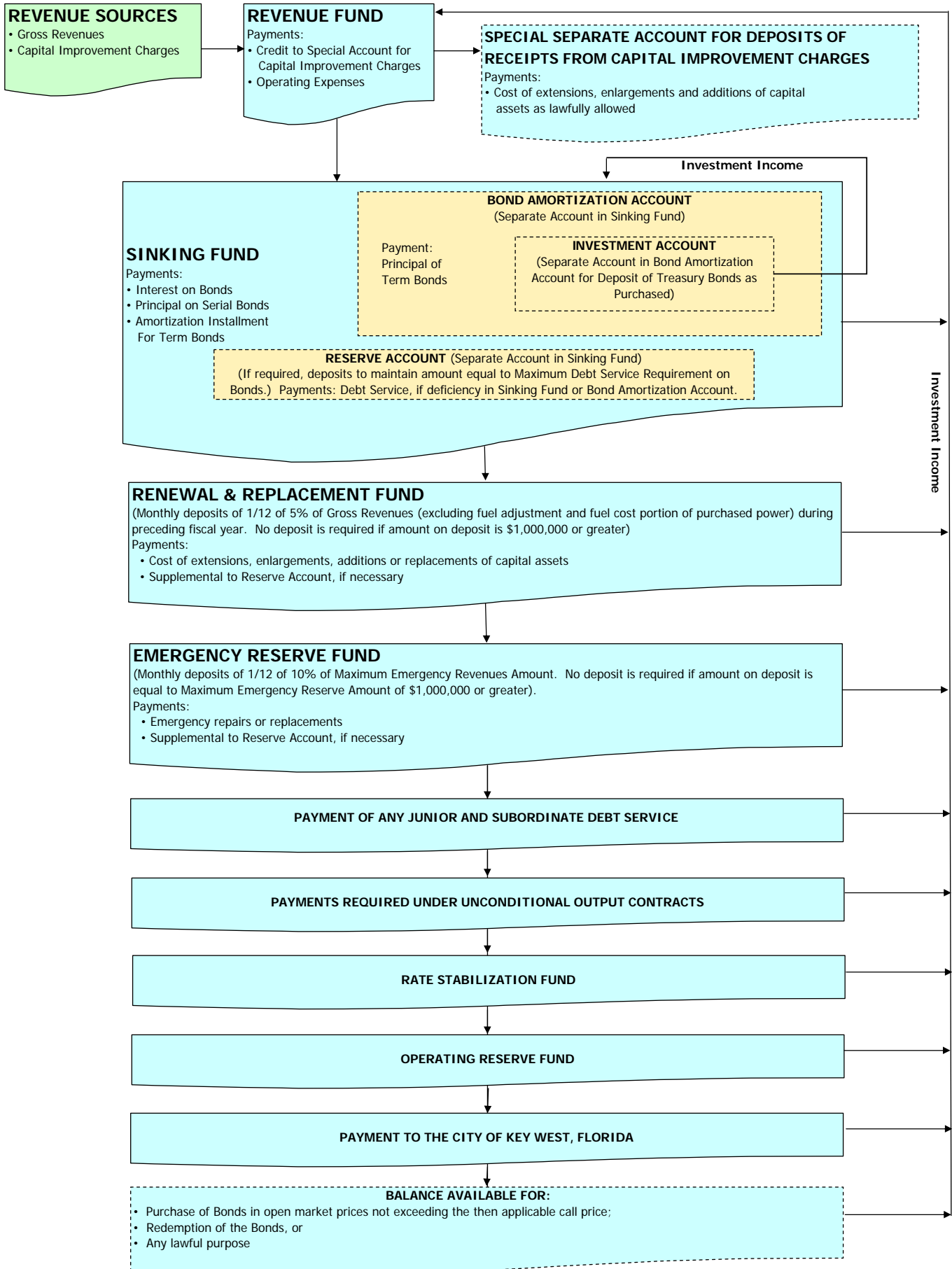
[1] Bonds are AMBAC insured.

[2] Bonds issued as capital appreciation bonds; amounts do not reflect accretions.

[3] Principal amounts paid on October 1, 2006 included \$4,615,000 for the 2000 Bonds and \$900,000 for the 2001 Bonds, for a total of \$5,515,000. On October 19, 2006, the Utility Board issued \$42,000,000 Electric Refunding and Capital Improvement Revenue Bonds, Series 2006.

UTILITY BOARD OF THE CITY OF KEY WEST
Flow of Funds

Figure 1-1



Section 2

Description of the System



Description of the System

General

The Utility Board owns, operates and controls an electric generation, transmission and distribution system. The Electric System's service area covers approximately seventy-four square miles of land in the lower Florida Keys including the City of Key West and several other island keys within a distance approximately 44 miles east of the City. The City is located approximately seventy miles southwest off the tip of the peninsula of Florida.

In July 1997, the Utility Board agreed to become a member of the FMPA All-Requirements Power Supply Project (the "All-Requirements Project") and began operations as a project participant effective April 1, 1998. Under the All-Requirements Project, all of the existing generating facilities of the Utility Board are assigned to FMPA for use and dispatch to meet the collective requirements of the members of the All-Requirements Project.

The following is a summary of property, plant and equipment owned by the Utility Board as of September 30, 2006:

	Gross Plant in Service	Accumulated Depreciation	Net Plant in Service
Generation Plant	\$ 50,683,391	(\$27,727,274)	\$22,956,117
Transmission Plant	72,481,155	(28,147,536)	44,333,619
Distribution Plant	58,162,357	(20,083,103)	38,079,254
General Plant	14,595,120	(6,508,003)	8,087,117
Other	<u>220,264</u>	<u>-</u>	<u>220,264</u>
Total	<u>\$196,142,287</u>	<u>(\$82,465,916)</u>	<u>\$113,676,371</u>

Generating Resources

Tables 2-1 through 2-3 provide summaries of the System's existing generating facilities and purchased power resources. Table 2-1 summarizes the Utility Board's existing electric power production facilities located at Stock Island. Table 2-2 summarizes capacity resource statistics of the Utility Board's generating resources and firm power purchases as they relate to the system annual net peak demand for Fiscal Years 2002 through 2006. Table 2-3 summarizes the historical mix of on-island generation versus transmission tie-line purchases.

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As of September 30, 2006, the Utility Board owned and operated the island generating units with a total maximum net continuous capability of 40.5 MW. Also, the Utility Board has operated two FMPA combustion turbine units that were added in 1998 (CT No. 2 and CT No. 3) and a third FMPA combustion turbine (CT No. 4) that was added in 2006.

CT No. 2 and CT No. 3 consist of two rebuilt General Electric Frame 5 combustion turbine generating units located at the Stock Island Plant with a combined maximum net continuous capacity of 34.7 MW. CT No. 4 is a new combustion turbine unit with a maximum net continuous capability of 43 MW. These three units are owned by FMPA and operated by the Utility Board.

The maximum net continuous capability as of September 30, 2006, after the addition of the three FMPA combustion turbines, totaled 118.7 MW, as summarized below by type of generating resource:

Unit Type	Fuel Type	Nameplate Capability (MW)	Maximum Net Continuous Capability (MW)
Combustion Turbine (Utility Board)	No. 2 Oil	20.0	18.0
Combustion Turbine (FMPA).....	No. 2 Oil	79.7	77.7
Diesel (High Speed).....	No. 2 Oil	6.0	5.4
Diesel (Medium Speed).....	No. 2 Oil	<u>17.4</u>	<u>17.6</u>
Total		<u>123.1</u>	<u>118.7</u>

Peaking diesel units located at Big Pine Key (2.5 MW), and Cudjoe Key (2.5 MW), were decommissioned in 2006.

In August of 1995, the Ralph Garcia Steam Plant ("RGSP") was placed on cold standby, and the plant was retired in August 1996. The Utility Board converted the RGSP generator into a synchronous condenser, which increased the total import capability of the 138 kV transmission tie-line between the Utility Board's System and the Florida grid by approximately 30 MW.

The Utility Board has established a policy to have island generation capability equal to at least 60% of the System peak load. The Utility Board and FMPA have agreed to meet this criterion through a combination of the Utility Board's 43.4 MW of owned generating resources and the three combustion turbine units that are owned by FMPA.

Fuel Contracts

Under the All-Requirements Project, FMPA is responsible for fuel procurement and payment of fuel costs for the Utility Board's generating facilities and the FMPA owned generating units. The Utility Board and FMPA have an agreement whereby FMPA pays the suppliers directly for fuel costs incurred under the fuel contracts. Four large fuel storage tanks are located at the Stock Island site with a total capacity of

approximately 3.9 million gallons. The tanks are single wall steel with concrete or asphalt bases, and are polylined to contain any spills within.

Purchased Power Arrangements

Under the contractual arrangement with FMPA, the Utility Board has assigned all of its generating and firm purchased power resources to FMPA, and FMPA serves all of the Utility Board's power supply requirements. The FMPA All-Requirements Project, the related assignment of resources by the Utility Board to FMPA, and other matters pertaining to the Utility Board's power supply are discussed in the following sections.

FMPA All-Requirements Project

FMPA was created in 1978 for the purpose of assisting in the development of power pooling and interchange arrangements among municipal power systems. Currently, FMPA consists of thirty member municipal electric systems, including the Utility Board. One of FMPA's responsibilities is to develop power supply projects and offer participation to its members. Its members individually determine in which project or projects they wish to participate.

The Integrated Dispatch and Operation Project was developed by FMPA to include additional members in its existing All-Requirements Power Supply Project, which initially provided the bulk power supply requirements to five non-generating member systems beginning in 1985. Subsequent to proceedings with FERC and resolution of matters relating to transmission service from Florida Power & Light Company ("FPL"), FMPA was able to offer an economic power supply arrangement to new member systems that are generating utilities through the All-Requirements Project. The Utility Board evaluated the FMPA All-Requirements Project, along with other power supply alternatives, and decided to become a member effective April 1, 1998. As of September 30, 2006, the All-Requirements Project included 15 member municipal electric utilities in Florida.

The summer peak non-coincident demand requirement of the combined participants is approximately 1,600 MW. Resources that comprise the All-Requirements Project as of September 2006 total 1,753 MW, of which 563 MW is from the All-Requirements Project owned generation, 666 MW is from the generating resources assigned to the project by the project participants including the Utility Board, 439 MW is from purchased power resources, and 84 MW is from participant owned nuclear resources.

As a member of the FMPA All-Requirements Project, the project participants purchase their total bulk power supply requirements, in excess of certain excluded resources of the generating project participants, from the FMPA All-Requirements Project. The generating project participants receive full payment of costs associated with purchased power. For owned generation, the participants receive full payment of fuel costs and receive capacity credits determined by FMPA for making their generating resources available to the project through a Capacity and Energy Sales

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Contract. Payments by project participants to FMPA under the All-Requirements Project are required to be treated as a cost of operation and maintenance for the project participant.

The Capacity and Energy Sales Contract between the Utility Board and FMPA commenced on April 1, 1998 and will remain in effect until October 1, 2030, with provisions for automatic extension for additional one year periods beyond October 1, 2030. The All-Requirements Power Supply Project Contract between the Utility Board and FMPA includes, among other things, a provision that would allow the Utility Board to withdraw from the All-Requirements Project, provided certain notice and other provisions requiring payment by the Utility Board are met, and the Capacity and Energy Sales Contract between the Utility Board and FMPA would terminate at the time of any such withdrawal from the project.

The arrangement between FMPA and the Utility Board includes FMPA's commitment to assume responsibility for two combustion turbine electric generating units that were installed at the Stock Island Plant in June 1999. Prior to joining the All-Requirements Project, the Utility Board had been in the process of acquiring these units, with 15 MW of capacity each, to meet its policy of having island generation capability equal to at least 60% of the System peak load. The arrangement between FMPA and the Utility Board also includes FMPA's commitment to provide transmission service to the interconnection at Marathon Key. Pursuant to this commitment, FMPA will assume financial responsibility for future upgrades that are required to the portion of the transmission system from Marathon Key to Monroe County.

Other Power Sale Agreements of the Utility Board

The Utility Board has entered into several purchased power agreements with other parties including (i) the FMPA Tri-City Project, (ii) the FMPA Stanton 2 Project, and (iii) a long-term purchase agreement with FPL. As a member of the All-Requirements Project, the Utility Board's resources and costs under these three contracts have been assigned to FMPA. Other power purchase and sale arrangements include the Utility Board's purchases from a small resource recovery unit located on Stock Island, sale of power and energy to Florida Keys Electric Cooperative, Inc. ("FKEC") and interchange service agreements with other Florida utilities and with power marketers.

All of the power purchases, except for the purchase from the resource recovery unit, have required transmission service over the FKEC transmission system, which is jointly owned, by the Utility Board (56.5%) and FKEC (43.5%) under the Long-Term Joint Investment Transmission Agreement dated December 30, 1991.

The following are brief summaries of the purchased power arrangements discussed above. These summaries represent the firm's understanding of certain general principles and do not purport to be complete or comprehensive. The actual agreements and documents should be referred to for a complete understanding of their terms and conditions.

FMPA Tri-City Project (Stanton 1)

The Utility Board is a member of the FMPA Tri-City Project (Stanton 1). The Utility Board and FMPA have entered into a Tri-City Project Power Sales Contract and a Tri-City Project Support Contract wherein the Utility Board has agreed to purchase 54.546% of FMPA's Tri-City Project. FMPA's Tri-City Project consists of a 5.3012% undivided ownership interest in Curtis H. Stanton Energy Center ("Stanton") Unit No. 1, a 440 MW coal-fired generating unit jointly owned by the Orlando Utilities Commission ("OUC"), the Kissimmee Utility Authority, and FMPA, and operated by the OUC. Stanton Unit No. 1 began commercial operation in July 1987. Based upon the unit's high dispatch rating of 440 MW, the Tri-City Project consists of a 23 MW undivided ownership and the System's power entitlement share is approximately 12 MW at the plant busbar near Orlando, Florida.

FMPA Stanton 2 Project

The Utility Board is a member of the FMPA Stanton 2 Project. The Utility Board and FMPA have entered into a Stanton 2 Project Power Sales Contract and a Project Support Contract wherein the Utility Board has agreed to purchase 9.8932% of FMPA's Stanton 2 Project. FMPA's Stanton 2 Project consists of a 23.2367% undivided ownership interest in Stanton Unit No. 2, a 446 MW coal-fired generating unit jointly owned by OUC and FMPA, and operated by OUC. Stanton Unit No. 2 began commercial operation in June 1996. Based on the unit's 446 MW high dispatch rating, the Stanton 2 Project consists of a 102 MW undivided ownership and the System's power entitlement share is approximately 10 MW at the plant busbar near Orlando, Florida.

FPL Long-Term Purchase

The Utility Board entered into an agreement with FPL on August 15, 1991, entitled the Long-Term Agreement to Provide Capacity and Energy by Florida Power & Light Company to the City Electric System of the Utility Board of the City of Key West, Florida (the "FPL Long-Term Agreement") which became effective on June 1, 1993 after the termination of a short-term purchase agreement with FPL. The FPL Long-Term Agreement will continue in effect for 20 years. The initial purchase amount (the "Initial Contract Demand") is 45 MW. The contract demand for each year is to be designated by the Utility Board on or before September 1 of each prior year, but the contract demand cannot be less than the initial contract demand during the term of the agreement. In the event the System peak load during a year is lower than the System peak load in the immediately preceding year, the Utility Board may decrease the portion of its contract demand in excess of the Initial Contract Demand, subject to certain limitations.

FKEC Sale Agreement

The Utility Board has entered into an 18-year agreement, effective January 1, 1994, (the "FKEC Capacity and Energy Sale Agreement") with FKEC under which the

Utility Board agrees to sell power and energy to FKEC. The contract demand availability under the agreement was originally 10.0 MW. The amount was adjusted to 12.0 MW on January 1, 1995. The contract demand may be further increased or decreased at any time upon mutual agreement of both parties. The minimum demand charge is \$3.09/kW-month, which is subject to potential future adjustment based upon the increase or the decrease in Base Demand Charge, which FKEC pays FPL (as defined in FKEC's power supply contract with FPL).

The energy charge (mills per net kilowatt hour) is based on the Utility Board's average fuel cost of its diesel and combustion turbine generating units that are used in the month the energy is provided to FKEC. The Utility Board's net cost includes, but is not limited to, fuel cost, transmission cost, and losses incurred by the Utility Board.

The Utility Board is required to provide the capacity and energy only to the extent FKEC cannot meet a portion of its load with FPL and FKEC resources. In the event the transmission line is interrupted, the Utility Board may curtail the amount it sells to FKEC pursuant to a formula in the contract, which prorates FKEC's contract demand based on the relationship between the Utility Board's available resources and its projected monthly peak requirements (including FKEC's contract demand).

Interchange Agreements

The Utility Board has bilateral interchange agreements with nineteen Florida utilities and twelve power marketers. These bilateral agreements are similar to those, which exist between other Florida utilities and include emergency, economy, extended economy, short-term firm negotiated interchange service, opportunity sale interchange service, and firm power purchase interchange service schedules. Through its bilateral agreements with other utilities, the Utility Board has participated in economy interchange transactions based on computer quotes by participating electric utilities.

As a member of the All-Requirements Project, interchange transactions with other utilities and with power marketers to meet the load requirements of the Utility Board have occurred through FMPA's bilateral interchange agreements with other electric suppliers.

Bulk Power Transmission Arrangements

In order to purchase power from sources located on the Florida mainland, the Utility Board has maintained a transmission agreement with FKEC and a three-party interconnection agreement with FKEC and FPL. The Utility Board entered into a transmission agreement with FKEC on December 30, 1991, which supersedes the previous FKEC agreement dated February 6, 1985. These agreements are summarized below.

FKEC Transmission Agreement

To provide the long-term transmission needs of both the Utility Board and FKEC, the parties have entered into a relationship in which both the Utility Board and FKEC will

maintain an allocated ownership investment in the transmission system between the Monroe/Dade County line and the north end of the Seven Mile Bridge. Based on the estimated usage of the transmission system in 1993 and 2020, and other considerations such as allocations of losses, the parties agreed that the Utility Board will be required to maintain 56.5% investment in the transmission system and FKEC is required to maintain 43.5% investment in the transmission system. This allocation shall not be changed unless both parties agree to such change in writing. Based on the agreement, the Utility Board is entitled, at all times, to 40% of the transfer limit of the FKEC 138 kV transmission system.

The transfer capability of both 138 kV transmission lines is approximately 270 MW and the firm MW transfer allocation for the Utility Board is approximately 110 MW. If the Utility Board's import requirements exceed its 110 MW transfer limit, based upon availability and other factors, the FKEC and the Utility Board have an agreement whereby the Utility Board can purchase transmission capacity required in excess of 110 MW.

The term of the agreement is to be forty years from the effective date of January 1, 1992 or until all property comprising the transmission system has been disposed of and all termination costs have been paid, whichever occurs last.

Interconnection Agreement

The "Interconnection Agreement among Florida Power & Light Company and Florida Keys Electric Cooperative Association, Inc., and the Utility Board of the City of Key West" (the "Interconnection Agreement") establishes the conditions under which the three systems operate under interconnected conditions. Although the Electric System and FPL are not directly interconnected, a three-party agreement including FPL was necessary since FKEC is located in the FPL control area and FPL schedules the power flows into and out of the FKEC system.

Transmission and Distribution Facilities

The Electric System is connected to the mainland transmission system through a 61.0 mile long, jointly owned, 138 kV transmission line. The 138 kV transmission line extends up U.S. 1 through FKEC's service territory and ties in with FPL on the mainland. The Utility Board's solely owned portion of the 138 kV line extends from Marathon Key, in the FKEC service territory, to the Stock Island (U.S. 1) substation. Along this route, the line loops in and out of the Utility Board's Big Pine and Big Coppitt substations. The Cudjoe Key substation is a tap off of the 138 kV line along this route.

Pursuant to the current transmission agreement with FKEC, the Utility Board constructed and jointly owns with FKEC a second 138 kV line, completed in April 1995, which extends approximately 21 miles from the Tavernier Substation to the Monroe-Dade County line, where it ties into the FPL 138 kV transmission line. The Utility Board reports that the two 138 kV transmission lines from the Florida City substation to the Tavernier substation have increased the import capability and

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improved reliability in the Florida Keys. A second 138 kV line from Stock Island (U.S. 1) to Big Coppitt substation was installed in 2001.

Transmission service is presently provided at 69 kV from the Stock Island (U.S. 1), Kennedy Drive, White Street, Key West Diesel, and Thompson Street substations. The City of Key West is looped with 69 kV circuits that interconnect these substations. Transformation from the 138 kV tie line from the mainland to the 69 kV is provided by two auto transformers at the Stock Island (U.S. 1) substation.

The Electric System's distribution system comprises approximately 240 miles of three phase equivalent 13.8 kV feeder lines from the System's power plants and distribution substations. Distribution at 13.8 kV in various capacities is supplied out of the following substations:

Substation	Voltage	Capacity
Big Pine	138 kV - 13.8 kV	60.0 MVA (two units)
Cudjoe	138 kV - 13.8 kV	43.0 MVA
Big Coppitt	138 kV - 13.8 kV	28.0 MVA
Stock Island (U.S. 1)	69 kV - 13.8 kV	22.4 MVA
Stock Island (U.S. 1) Auto 1 and 2	138 kV - 69 kV	188.9 MVA (two units)
Kennedy Drive No. 1 and No. 2	69 kV - 13.8 kV	44.8 MVA (two units)
Key West Diesel	69 kV - 13.8 kV	65.4 MVA
Thompson Street	69 kV - 13.8 kV	33.6 MVA
White Street	69 kV - 13.8 kV	86.0 MVA (two units)

General Plant Facilities

KEYS operates and maintains a service building in Key West and a satellite customer service center on Big Pine Key. Other general plant assets include vehicles, office furniture and equipment, and information technologies.

Territory Served

The service area of the System consists of the lower Florida Keys, extending approximately 44 miles in an east-west direction from Pigeon Key, adjacent to the service area of FKEC, to Key West. The System serves an area of approximately 74 square miles that includes the incorporated area of the City and the keys west of the Seven Mile Bridge. Within its service area, the System currently services the area between Ohio Key and Key West. The major keys included in the service area are Key West, Stock Island, Boca Chica, Big Coppitt Key, Sugarloaf Key, Saddlebunch Keys, Cudjoe Key, Summerland Key, Torch Keys, Ramrod Key, Big Pine Key, Bahia Honda Key, and Ohio Key. Keys to the northeast of the System's service area are served by FKEC. The Utility Board executed a territorial agreement with FKEC on June 17, 1991, and the agreement will expire on June 16, 2021. The Utility Board's service area is shown on Figure 2-1.

The Utility Board reports that approximately 54% of the Utility Board's customers and electric sales were within the city limits. Key West is an island approximately four

miles long and two miles wide, encompassing approximately 3,060 acres of developable land, of which approximately 95% is developed.

Extent of Business

The extent of the System's business for the last five fiscal years is shown on Tables 2-4 through 2-6 at the end of this section. Table 2-4 provides statistics on operating expenses, Table 2-5 provides statistics on customers, sales and revenues, and Table 2-6 provides a summary of trends on customers, sales and revenues.

As shown on line 20 of Table 2-5, for the last five fiscal years, the operating ratio (operating expenses divided by operating revenues) has changed from 81.0% in 2002 to 85.9% in 2006 which indicates that operating costs increased more from 2002 to 2006 than operating revenues. It should be noted that fuel and purchased power expenses, which amounts to approximately 60% of total operating revenue, are passed through to the ultimate customer via the power cost adjustment mechanism, and therefore assures a degree of revenue stability for the Utility Board.

The trend of customers, sales, and revenues for the last five fiscal years is shown on Table 2-6. Compared to the twelve months ended September 30, 2002, the Fiscal Year 2006 retail energy sales of 704 GWh represented an average annual uniform growth rate of approximately 0.02%, the 29,507 average number of customers served represented an annual average uniform growth rate of approximately 0.65%, and revenues of \$94.0 million dollars represented an annual average uniform growth rate of approximately 9.88%. It should be recognized that reported sales during fiscal year ended September 30, 2006, reflect the effects of hurricanes and the temporary interruption of service.

Comparative Statistics

Table 2-7 represents comparative financial and operating statistics and comparative indicators for the Utility Board. A summary of calculated financial ratios for the Utility Board is shown for the fiscal years ending September 30, 2002 through September 30, 2006. The comparison shows that the Utility Board has improved in 2006 versus 2002 in its current ratio, long-term debt ratio, and interest coverage ratio.

The Utility Board has certain differences with respect to the other Florida generating municipal utilities. Specific differences that have an adverse impact on the utility include its geographic location, ocean environment, fuel supply, and reliability requirements, among other things. In general different methods of accounting (for example, cost functionalization and expensing costs versus capitalizing costs), demographics, geographic location, weather and power supply mix may account for certain differences between the Utility Board and other utilities.

Regulation and Rate Structures

The System is subject to jurisdiction by certain federal, state, and local regulatory authorities. The FPSC has jurisdiction over municipal electric utilities to prescribe uniform systems and classification of accounts, to prescribe and enforce safety standards for transmission and distribution facilities to require electric power conservation and reliability, to approve territorial agreements, to settle territorial disputes and to prescribe rate structures. Pursuant to the rules of the FPSC, rate structure is defined as "...the classification system used in justifying different rates and, more specifically...the rate relationship between various customer classes, as well as the rate relationship between members of a customer class." However, the FPSC and the Florida Supreme Court have determined that, except as to rate structure, the FPSC does not have jurisdiction over municipal electric utility rates.

In 1989, the Florida legislature enacted Subsection (4) of Section 366.041 of the Florida Statutes, which gives the FPSC oversight regarding impact fees for electric systems. The statute reads as follows:

“No electric utility may collect impact fees designed to recover capital costs in initiating new service unless the utility can demonstrate and the [Florida Public Service] Commission finds that such fees are fair, just and reasonable and are collected from the ultimate utility customer of record at such time as or after permanent electric service is provided. This prohibition shall not apply to underground electric distribution lines or line extension charges collected pursuant to approved tariffs.”

The Utility Board filed its Contribution in Aid of Construction Charge with the FPSC and it was approved by the FPSC effective October 1, 1999.

Conservation

The Utility Board's existing conservation plan includes the following conservation programs: free home energy audits, water heater jacket installations, an on-line energy audit tool, a free giveaway program, an art contest calendar to promote conservation, the “Go Green” renewable energy program, and advertising on local radio and bill inserts. This program was initially developed in response to Florida law. Although such law no longer applies to small utilities like the Utility Board, the Utility Board continues to offer conservation programs to its customers.

Environmental

The Utility Board of the City of Key West, Florida, operates its electric generating facilities in accordance with all applicable federal, state and local environmental laws, regulations, codes, standards. The major environmental permits and approvals required to operate the facilities were obtained through the offices of the FDEP, and the EPA. Table 2-8 summarizes the key permits and approvals required to operate the generation facilities.

The permits and approvals specify environmental limitations and operating conditions regarding air emissions, wastewater discharges, solid waste disposal, and other operations. The following is a discussion of the status of the key environmental permits and ongoing environmental compliance programs.

The electric distribution system has eliminated all transformers and capacitors that constitute either Polychlorinated Biphenyl (“PCB”) Equipment (greater than 500 ppm), or PCB Contaminated Equipment (less than 500 ppm but greater than 50 ppm). According to the Utility Board, there is no known PCB Equipment in the System, and the System is considered to be a PCB-free environment.

Waste oil removed from equipment and vehicles is collected and stored in a secured waste oil storage area at the Stock Island Generating Facility. The Utility Board reports that a licensed contractor collects this waste oil and disposes of the oil in an environmentally acceptable manner.

The Stock Island Generating Facility wastewater discharge canal is considered part of the Waters of the State of Florida and requires a variance from FDEP with respect to water quality compliance. A request for variance renewal was submitted to FDEP in December 1995, reflecting retirement of the steam unit but continued use of the discharge canal for conveying primarily cooling water from the medium speed diesel units to the ocean. FDEP granted this variance January 9, 1998.

In February 1997, the Utility Board requested modification of their National Pollution Discharge Elimination System (“NPDES”) wastewater discharge permit for the Stock Island Generation Facility to reduce the required monitoring requirements. In January 1998, FDEP approved modifications reducing the listing requirements and renewing the discharge permit.

The Clean Air Act Amendments (“CAAA”) of 1990 provided for an annual operating permit program, also known as Title V. Once the states have an approved implementation plan, all affected facilities are required to submit applications quantifying the emissions of regulated pollutants and pay associated emission fees. The State of Florida has promulgated the federal legislation as Rule 62.210 of the Florida Administrative Code. The Title V permits, issued in 2000, incorporate all of the Utility Board’s air emission sources at the Stock Island, Cudjoe Key and Big Pine Key sites.

The CAAA established provisions for air pollution sources to reduce SO₂ and NO_x emissions. The provisions, known as Title IV, or Acid Rain, are being implemented as a two-phase program for pollution control. Florida has adopted the federal acid rain provisions by reference. The program requires that affected units obtain allowances based on tons of pollutants emitted, install continuous emission monitoring, and file quarterly data reports (40 CFR Parts 60, 70 and 75). On February 14, 1995, the Utility Board was issued a final New Unit Exemption from the EPA Region IV for the Stock Island Generating Facility Medium Speed Diesels. The exemption is effective through December 31, 2003, and exempts the units from obtaining allowances and from certain emission monitoring requirements. The Utility Board’s diesel peaking units and CT peaking unit are exempt due to their size and planned peaking operation.

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During 1997-1998, the Utility Board upgraded and modified its No. 2 fuel tanks at the Cudjoe, Big Pine and Stock Island Generating Facility to comply with FDEP Rules Chapter 62-762, which require upgrades for tanks with storage capacity greater than 550 gallons including:

- Inspection/testing of tank integrity
- Closure requirements
- Modification/sealing of tank bottoms
- Installation of fill/overflow controls and level gauging
- Lining of containment areas for #2 fuel tanks
- Application of appropriate exterior coatings
- Installation of cathodic protection

The fuel oil storage tanks at all three locations are currently registered with the FDEP accordingly.

The Utility Board had a lube oil leak in the immediate vicinity of its generating units at the Cudjoe Key Generating Facility site in 2000. This incident was reported to FDEP and remediation was conducted.

The Utility Board has a stated policy with respect to electric and magnetic fields ("EMF") intensities, that it will act with "prudent avoidance" when planning, siting, constructing, and operating new transmission and distribution facilities, or upgrading and rebuilding existing transmission and distribution facilities. The Utility Board's stated policy includes taking prudent steps to limit people's exposure to EMF when it can be accomplished with modest amounts of money and effort. The Utility Board's policy further states it will avoid costly action that is not justified while uncertainty remains. Steps the Utility Board says it will consider taking to the extent they are reasonable include: (1) designing alternatives considering the special arrangement of phasing of conductors; (2) routing lines to limit exposure to areas of concentrated population and group facilities; (3) installing higher structures; and (4) widening right-of-way corridors. The Utility Board responds to residential customer inquiries by measuring EMF strengths at various locations upon request. The Utility Board furnishes EMF educational type information to customers on a case-by-case basis when inquiries are made.

At September 30, 2006, the Utility Board reports that it is in compliance with all known environmental requirements and there are no known pending threats or citations being issued by the FDEP, the EPA or other regulatory body asserting jurisdiction upon environmental matters.

Comments regarding environmental matters contained in this report are based only on conditions known to the Consulting Engineer at the time of the report. Through a number of projects performed for the Utility Board, the Consulting Engineer is generally aware of the status of environmental compliance for the Utility Board's existing generation facilities. Based on these projects, it is the opinion of the Consulting Engineer that the generation facilities are in compliance with applicable environmental laws, regulations, codes, ordinances, or standards of conditions.

However, the Consulting Engineer has not performed a comprehensive environmental compliance assessment of all of the Utility Board's facilities, such as the distribution system facilities and operations. For this reason, the Consulting Engineer offers no opinions regarding the presence of or appropriateness of actions at any past or present Utility Board owned or operated facilities or sites that the Consulting Engineer has not reviewed that may be contaminated with hazardous waste.

Treasury Matters

In addition to the issuance of bonds in 2000 and 2001 discussed in Section 1, the Utility Board obtained a loan from FMPA, collateralized by a lien upon and pledge of net revenues of the system subordinate to the claims of the System's bonds on net revenues. As of September 30, 2006, the amount outstanding for the FMPA loan was \$948,000.

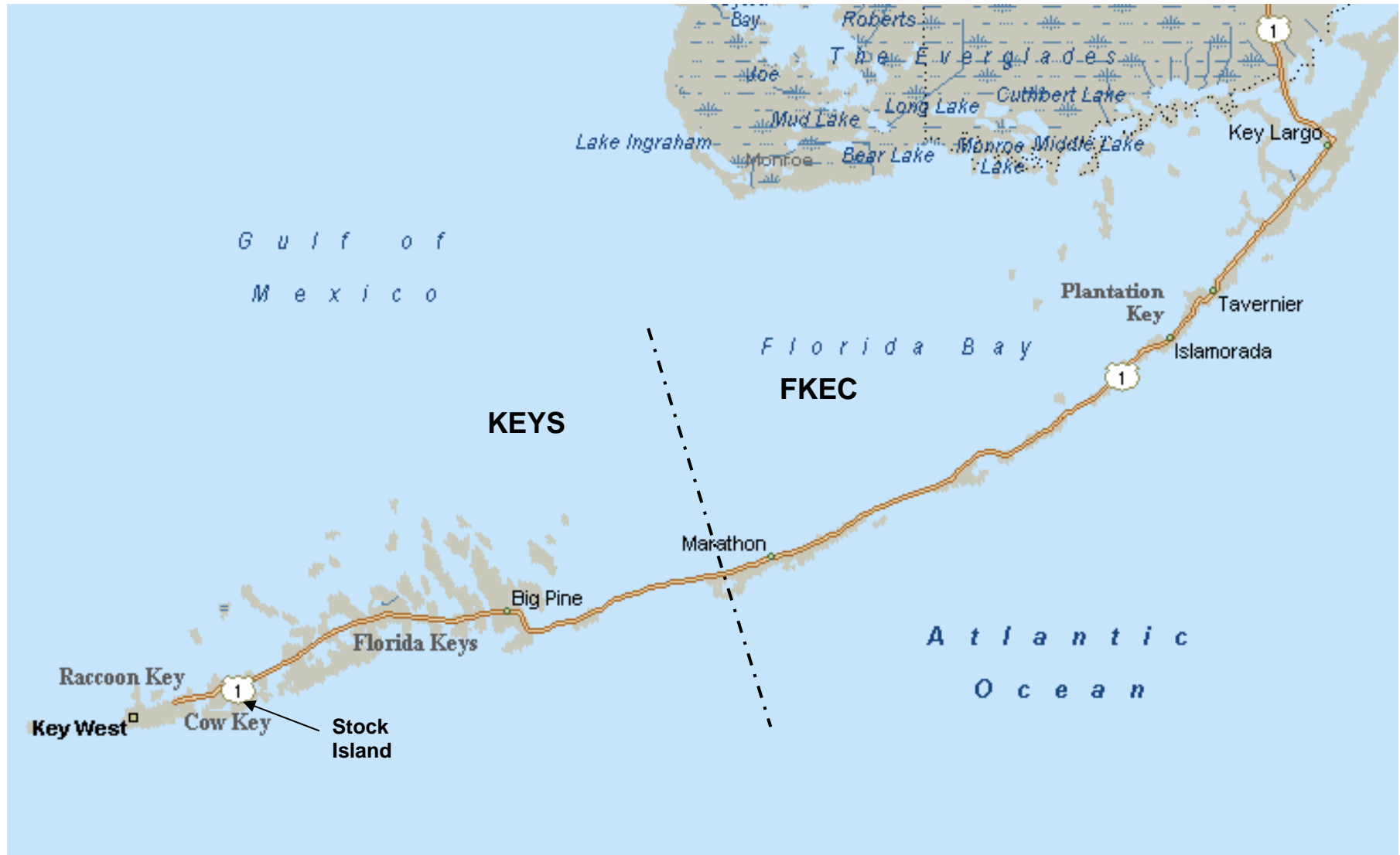
During the five year period, the Utility Board maintained an Operating Reserve Fund. The Operating Reserve Fund is used for the purpose of paying operating expenses for 90 days in the event of an emergency or for other lawful purposes of the System.

The Utility Board has established an Investment Committee, consisting of senior staff, one Board member, and the Financial Advisor, for the purpose of reviewing and investigating the Utility Board's investments.

Disposition of Properties

The Key West Steam Plant was decommissioned in 1991. In Fiscal Year 2005, a developer under a lease agreement with the Utility Board received all the permitting and financing to begin construction to redevelop the Steam Plant site. The Utility Board executed two 99 year lease agreements in 2005: one with Steam Plant Condominiums, LLC for 19 luxury condominiums and one with Old Town Key West Development, LLC for 38 affordable housing units. Due to the four hurricanes in calendar year 2005, the completion date for both housing projects has been extended to late 2007. The diesel units located at Big Pine Key and Cudjoe Key were decommissioned in 2006, and the Utility Board is conducting studies to develop the land at those sites.

Figure 2-1
Service Area



KEYS = Keys Energy Services
FKEC = Florida Keys Electric Cooperative, Inc.

Table 2-1

UTILITY BOARD OF THE CITY OF KEY WEST

Existing Electric Power Production Facilities^[1]

Fiscal Year Ended September 30, 2006

Line No.	Plant	Unit	Type Unit	Fuel Oil Type	Installed (Mo/Yr)	Present Age (Years)	Full Load Heat Rate (BTU/kWh)	Reported Capability (kW)		
								Nameplate	Net Continuous [2]	
1	Stock Island	CT No. 1	Combustion Turbine	No. 2	12/78	28	16,000	20,000	18,000	
2	Stock Island	CT No. 2 [3]	Combustion Turbine	No. 2	9/98	41 [4]	14,000	18,600	17,200	
3	Stock Island	CT No. 3 [3]	Combustion Turbine	No. 2	9/98	41 [4]	14,000	18,100	17,500	
4	Stock Island	CT No. 4 [3]	Combustion Turbine	No. 2	6/06	0	14,000	43,000	43,000	
5	Stock Island	1	High Speed Diesel	No. 2	2/65	41	11,000	2,000	1,800	
6	Stock Island	2	High Speed Diesel	No. 2	2/65	41	11,000	2,000	1,800	
7	Stock Island	3	High Speed Diesel	No. 2	2/65	41	11,000	2,000	1,800	
8	Stock Island	4	Medium Speed Diesel	No. 2	6/91	15	10,000	8,700	8,800	
9	Stock Island	5	Medium Speed Diesel	No. 2	6/91	15	10,000	8,700	8,800	
10	SYSTEM TOTAL								123,100	118,700

- [1] Based upon information provided by the Utility Board. Unless otherwise noted, the Power Production Facilities are owned, operated and maintained by the Keys Energy Services.
- [2] Maximum Net Continuous Capability during the summer season.
- [3] Owned by Florida Municipal Power Agency; operated and maintained by Keys Energy Services.
- [4] Preowned but refurbished combustion turbine electric generating units were installed at Stock Island in September 1998. Approximate age of each unit as of September 30, 2006 is 41 years.

Table 2-2

UTILITY BOARD OF THE CITY OF KEY WEST

Generation and Capacity Statistics [1]

Line No.	Description	Unit	Fiscal Year Ended September 30				
			2002	2003	2004	2005	2006
Gross Generation		(MWh)					
1	Steam		0	0	0	0	0
2	Diesel and Combustion Turbine		26,229	29,708	20,836	26,067	20,338
3	Total Generation		26,229	29,708	20,836	26,067	20,338
4	Less Station Auxiliaries		3,232	3,310	3,372	3,463	3,566
5	Net Generation		22,997	26,398	17,464	22,604	16,772
6	Net Delivered Purchased Power		734,541	767,542	763,799	758,537	738,938
Subtotal Net Generation and Purchased Power			757,538	793,940	781,263	781,141	755,710
8	Sales to Other Distributors		0	0	0	0	0
9	Net Energy Distributed		757,538	793,940	781,263	781,141	755,710
Less: Energy not Accounted for and Non-Revenue Energy			53,905	57,719	46,428	57,163	51,586
11	As a % of Net Distributed	(%)	7.1%	7.3%	5.9%	7.3%	6.8%
12	Retail Energy Sales	(MWh)	703,633	736,221	734,835	723,978	704,124
Generation Capacity		(MW)					
13	Combustion Turbine [2]		52.7	52.7	52.7	52.7	95.7
14	Medium Speed Diesel		17.6	17.6	17.6	17.6	17.6
15	High Speed Diesel		11.7	11.7	11.7	11.7	5.4
16	Total On-Island Resources [3]	(MW)	82.0	82.0	82.0	82.0	118.7
17	System Net Peak Demand [4]	(MW)	133.8	138.9	139.7	145.5	135.5
On-Island Resources as a % of System Net Peak Demand		(%)	61.3%	59.0%	58.7%	56.4%	87.6%
Delivered Purchased Power		(MW)					
FMPA All-Requirements Project:							
19	FP&L Long-Term Power		45.0	45.0	45.0	45.0	45.0
20	Tri-City Project (Stanton 1)		12.3	12.3	12.3	12.4	12.3
21	FMPA Stanton 2 Project		9.9	9.9	9.9	9.7	9.8
22	Total Purchased Power	(MW)	67.2	67.2	67.2	67.1	67.1
23	Total Generating & Purchased Net Continuous Capability	(MW)	149.2	149.2	149.2	149.1	185.8
24	Net Reserve Margin Including Purchased Power	(%)	11.5%	7.4%	6.8%	2.5%	37.1%

[1] Based on information provided by the Utility Board and Comprehensive Annual Financial Reports.

[2] Includes combustion turbines owned by FMPA.

[3] Does not take into account minimum commitment to FKEC of up to 12 MW.

[4] 60-minute peak.

Table 2-3

UTILITY BOARD OF THE CITY OF KEY WEST

Summary of Generation And Purchased Energy [1]

Fiscal Year Ending September 30

Line No.	Description	2002		2003		2004		2005		2006	
		MWh	%	MWh	%	MWh	%	MWh	%	MWh	%
1	On-Island Generation (Gross)	26,229	3.5%	29,708	3.7%	20,836	2.7%	26,067	3.3%	20,338	2.7%
2	Less: Station Auxiliaries	(3,232)	-0.4%	(3,310)	-0.4%	(3,372)	-0.4%	(3,463)	-0.4%	(3,566)	-0.5%
3	Subtotal On-Island Generation (Gross)	22,997	3.0%	26,398	3.3%	17,464	2.2%	22,604	2.9%	16,772	2.2%
	138 kV Transmission Line Purchases										
4	FMPA All-Requirements Project (ARP)	734,541	97.0%	767,542	96.7%	763,799	97.8%	758,537	97.1%	738,938	97.8%
5	Subtotal Transmission Line Purchases	734,541	97.0%	767,542	96.7%	763,799	97.8%	758,537	97.1%	738,938	97.8%
6	Subtotal Generation and Purchased Power	757,538	100.0%	793,940	100.0%	781,263	100.0%	781,141	100.0%	755,710	100.0%
7	Less: Sales for Resale	0	0.0%	0	0.0%	0	0.0%	0	0.0%	0	0.0%
8	Total Generation and Purchased Power	<u>757,538</u>	<u>100.0%</u>	<u>793,940</u>	<u>100.0%</u>	<u>781,263</u>	<u>100.0%</u>	<u>781,141</u>	<u>100.0%</u>	<u>755,710</u>	<u>100.0%</u>
9	Less: Losses and Unaccounted For Energy	(53,905)		(57,719)		(46,428)		(57,163)		(51,586)	
10	TOTAL RETAIL ENERGY SALES	<u>703,633</u>		<u>736,221</u>		<u>734,835</u>		<u>723,978</u>		<u>704,124</u>	

[1] Based on information provided by the Utility Board and its Comprehensive Annual Financial Reports.

Table 2-4

UTILITY BOARD OF THE CITY OF KEY WEST

Operating Expense Statistics [1]

Line No.	Description	Units	Fiscal Year Ended September 30				
			2002	2003	2004	2005	2006
Operating Expenses							
1	Production	\$	\$779,761	\$916,557	\$887,371	\$1,074,167	\$1,482,077
2	Purchased Power	\$	34,230,472	41,311,655	44,523,179	49,287,046	59,946,424
3	Transmission	\$	3,485,983	3,711,111	3,298,491	3,646,679	3,539,845
4	Distribution	\$	3,075,612	2,832,211	3,250,018	3,017,736	3,366,439
5	Customer Accounts and Collection	\$	985,698	1,015,116	1,085,522	1,280,590	1,243,322
6	Administration and General	\$	8,460,644	8,757,455	10,004,675	11,540,112	11,452,519
7	Taxes Other Than Income Taxes	\$	1,677,934	1,855,303	2,021,223	2,127,074	2,467,955
8	Total Operating Expenses	\$	\$52,696,104	\$60,399,408	\$65,070,479	\$71,973,404	\$83,498,581
Average Production and Purchased Power Costs:							
9	Total Production and Purchased Power	\$	\$35,010,233	\$42,228,212	\$45,410,550	\$50,361,213	\$61,428,501
10	Net Generation	MWh	22,997	26,398	17,464	22,604	16,772
11	Total Purchased Power	MWh	734,541	767,542	763,799	758,537	738,938
12	Total Generation and Purchased Power	MWh	757,538	793,940	781,263	781,141	755,710
13	Average Production and Purchased Power	\$/MWh	\$46.2	\$53.2	\$58.1	\$64.5	\$81.3
Average Operating Costs							
Total Operating Expenses Less:							
Production, Purchased Power,							
14	and Taxes Other Than Income Taxes	\$	16,007,937	16,315,893	17,638,706	19,485,117	19,602,125
15	Total Generation and Purchased Power	MWh	757,538	793,940	781,263	781,141	755,710
16	Sales to Other Distributors	MWh	0	0	0	0	0
17	Net Generation and Purchased Power	MWh	757,538	793,940	781,263	781,141	755,710
18	Average Other Operating Costs	\$/MWh	\$21.1	\$20.6	\$22.6	\$24.9	\$25.9
AVERAGE TOTAL							
19	OPERATING COSTS	\$/MWh	\$69.6	\$76.1	\$83.3	\$92.1	\$110.5

[1] Based on information provided by the Utility Board and the Audited Financial Statements.

Table 2-5

UTILITY BOARD OF THE CITY OF KEY WEST

Customers, Sales and Operating Revenue Statistics

Line No.	Description	<i>Fiscal Year Ended September 30</i>				
		2002	2003	2004	2005	2006
Customers						
1	Residential	23,471	23,703	23,813	24,081	24,011
2	Commercial and Large Power	3,531	3,566	3,683	3,712	3,744
3	Street Lighting and Other	9	9	9	9	9
4	Private Area Lighting	1,743	1,743	1,743	1,743	1,743
5	Total Customers	28,754	29,021	29,248	29,545	29,507
Energy Sales - MWh						
6	Residential	315,536	338,949	334,245	331,831	326,254
7	Commercial and Large Power	383,843	393,050	396,373	387,904	373,498
8	Street Lighting and Other	2,844	2,844	2,839	2,865	2,994
9	Private Area Lighting	1,410	1,378	1,378	1,378	1,378
10	Total Energy Sales - MWh	703,633	736,221	734,835	723,978	704,124
Operating Revenues - \$						
Sales Revenue:						
11	Residential	30,140,898	33,755,977	36,973,464	38,136,332	44,755,142
12	Commercial and Large Power	33,816,353	36,198,273	40,768,025	41,728,400	48,617,293
13	Street Lighting and Other	312,130	325,789	352,510	368,366	426,009
14	Private Area Lighting	186,049	178,738	190,629	173,103	169,924
15	Total Sales Revenue	64,455,430	70,458,777	78,284,628	80,406,201	93,968,368
16	Other Operating Revenue	2,202,083	2,535,303	3,054,809	3,072,535	3,231,697
17	Total Operating Revenue	66,657,513	72,994,080	81,339,437	83,478,736	97,200,065
18	Total Operating Expenses	52,696,104	60,399,408	65,070,479	71,973,404	83,498,581
19	Net Operating Revenue	13,961,409	12,594,672	16,268,958	11,505,332	13,701,484
20	Operating Ratio - %	79.06%	82.75%	80.00%	86.22%	85.90%
Energy Sales Per Customer - kWh						
21	Residential	13,444	14,300	14,036	13,780	13,588
22	Commercial and Large Power	108,707	110,222	107,622	104,500	99,759
23	Street Lighting and Other	316,000	316,000	315,444	318,333	332,667
24	Private Area Lighting	809	791	791	791	791
25	Avg. Energy Sales per Customer - kWh	24,471	25,369	25,124	24,504	23,863
Revenues Per Customer - \$						
26	Residential	1,284	1,424	1,553	1,584	1,864
27	Commercial and Large Power	9,577	10,151	11,069	11,241	12,985
28	Street Lighting and Other	34,681	36,199	39,168	40,930	47,334
29	Private Area Lighting	107	103	109	99	97
Revenues Per Sales - Mills/kWh						
30	Residential	95.5	99.6	110.6	114.9	137.2
31	Commercial and Large Power	88.1	92.1	102.9	107.6	130.2
32	Street Lighting and Other	109.8	114.6	124.2	128.6	142.3
33	Private Area Lighting	131.9	129.7	138.3	125.6	123.3
34	Average Sales per Customer	91.6	95.7	106.5	111.1	133.5

[1] Based on information provided by the Utility Board and the Audited Financial Statements.

Table 2-6

UTILITY BOARD OF THE CITY OF KEY WEST

Trend of Retail Customers, Sales and Revenues

Line No.	Description	Units	<i>Fiscal Year Ended September 30</i>					Compound Annual % Change 2002-2006
			2002	2003	2004	2005	2006	
1	Average Number of Retail Customers ^[1]	#	28,754	29,021	29,248	29,545	29,507	0.65%
2	Retail Energy Sales ^[1]	MWh	703,633	736,221	734,835	723,978	704,124	0.02%
3	Revenue from the Sales of Electricity ^[1]	\$(000)	64,455	70,459	78,285	80,406	93,968	9.88%
4	Operating Expenses Less Depreciation ^{[1][2]}	\$(000)	52,696	60,399	65,070	71,973	83,499	12.20%
5	Annual Average Sales per Customer	kWh	24,471	25,369	25,124	24,504	23,863	-0.63%
6	Annual Average Revenues per Customer	\$	2,242	2,428	2,677	2,721	3,185	9.18%
7	Annual Average Revenues per Sales	Mills/kWh	91.6	95.7	106.5	111.1	133.5	9.86%
8	Operating Expenses Per Customer	\$	1,833	2,081	2,225	2,436	2,830	11.47%
9	Operating Expenses Per Sales	Mills/kWh	74.9	82.0	88.6	99.4	118.6	12.18%

[1] Amounts shown were obtained from the Utility Board's audited Comprehensive Annual Financial Reports for Fiscal Years 2002 through 2006.

[2] Total Operating Expenses less Depreciation and Customer Deposit Interest.

Table 2-7

UTILITY BOARD OF THE CITY OF KEY WEST

COMPARATIVE FINANCIAL AND OPERATING STATISTICS [1]

Fiscal Year Ended September 30

Ln. No.	Ratio Description	Unit	2002	2003	2004	2005	2006
1	Current Ratio (Assets to Liabilities)	Per Unit	1.25	1.11	1.18	1.67	1.60
2	Long-Term Debt to Total Assets	%	54.56	52.53	49.47	46.30	43.15
3	Net Plant in Service to Total Assets	%	72.44	74.49	73.16	70.20	69.67
	Operating Ratio						
4	(O&M to Operating Revenues)	%	76.20	79.89	77.44	83.55	83.29
	Production Expense /						
5	Net Energy Requirements	\$/MWh	\$46.22	\$53.19	\$58.12	\$64.47	\$81.29
6	Total O&M Expense / MWh Sales	\$/MWh	\$72.51	\$79.52	\$85.80	\$96.48	\$115.08
	Total O&M Without Production						
7	Expense / Customers	\$/Cust.	\$556.72	\$562.21	\$603.07	\$659.51	\$664.32
	Interest Coverage						
8	(Net Revenues to Interest on Debt)	%	2.75	2.81	3.61	2.74	3.27

[1] Based on information provided by the Utility Board and its annual CAFR's.

Table 2-8

UTILITY BOARD OF THE CITY OF KEY WEST

Production Facilities Operating Permits

Permit Title	Issuing Agency	Permit Number	Expiration Date	Notes
Air Emission Source Operating Permits (Title V):				
Stock Island Plant: <ul style="list-style-type: none"> • Diesel Peaking Units • Medium Speed Diesels • Combustion Turbines 	FDEP	0870003-006-AV	December 31,2009	
Other Permits:				
Stock Island NPDES	EPA	FL0002089	May 12, 2009	Start renewal process by 6/08
Stock Island Discharge Canal Variance	FDEP		May 12, 2009	
US Army Corps of Engineers Permit for Dredge/Fill of Intake-Stock Island	USACOE			Not in use at this time
Stock Island Storage Tank Registration	FDEP	Reg. No. 134994	July 1, 2008	Annual renewal
Stock Island Acid Rain	FDEP	Form No. 62-210900	December 31, 2009	Annual renewal
Maintenance Permit	FDEP	442147305		Not in use at this time

Section 3

Organization and Management



Organization and Management

General

The Utility Board was initially created by the City Council and subsequently was established by an Act of the Florida Legislature in 1945 to operate and maintain the System. The present form of the Utility Board was created in 1969 by the Florida Legislature and was given control of the System. The Board is composed of a Chairman who is elected for a term of two years and four members who are elected for a term of four years by the voters of the City. Any member of the Utility Board may be removed for cause by a two-thirds vote of the City Commission. The Utility Board exercises exclusive control and management of the System and appoints its Vice Chairman and management. The General Manager of the System serves as Secretary of the Utility Board and is also responsible for the day-to-day operations of the System, including the hiring of employees. Neither the City nor any other board, officer or agency of the City has any control over the operation or management of the System or of the Utility Board. The City must approve the issuance of bonds by the Utility Board.

Utility Board

The elected officials comprising the membership of the Utility Board and their expiration of terms of office as of September 30, 2006 were as follows:

Robert R. Padron	November, 2007
Lou Hernandez	November, 2009
Peter Batty	November, 2009
Charles A. Bradford, Jr.	November, 2007
Mona C. Clark	November, 2007

Biographies of the Board Members are as follows:

Robert R. Padron, Chairman, has served on the Utility Board since 1995. He was employed by Keys Energy Services from 1961 to 1994, and retired as the General Manager. Mr. Padron holds a Bachelor of Science Degree from Tulane University and a Master's of Science from Nova University. He serves on various committees of the Florida Municipal Power Agency ("FMPA"), the American Public Power Association ("APPA") and the Florida Municipal Electric Association ("FMEA"), where he is a past president. He was the 2002 recipient of the APPA's Spence Vanderlinden Public Official Award.

Lou Hernandez, Vice Chairman, has served on the Utility Board since 1997. He is the Executive Director of HELPLINE, Inc., a crisis intervention and information referral telephone hotline in Monroe County. Upon graduation from Texas A&M University, Mr. Hernandez was commissioned by the U.S. Army and served as an Infantry Officer in Vietnam. After completing his Armed Services commitment, Mr. Hernandez secured a Federal internship with the U.S. Department of Transportation in the Human Resources Development area. He worked with several Federal agencies, completing his career in Washington as the Director of Training and Employee Development with the General Services Administration. He moved to Key West in 1983 and has worked in the home renovation business and as a counselor at FTPA and the Public Health Department. He is the current Vice-Chair of the Citizen's Review Board of the City of Key West.

Peter Batty has served on the Utility Board since 2005. He is a Florida licensed Real Estate Broker and Mortgage Broker and has lived in the Florida Keys since 1989. On November 18, 2000, he was ordained as a Permanent Deacon to the Archdiocese of Miami. Mr. Batty received his Bachelor of Science degree from Eastern Michigan University and his Masters degree from St. Thomas University. Mr. Batty is a member of the Florida Keys Community College Education Foundation Board and former Vice President of the Wesley House Board of Directors, Mr. Batty was born in Salisbury, England, and immigrated to the United States in 1955. He and his wife Ellen have raised four children in the Florida Keys.

Charles A. Bradford, Jr. has served on the Utility Board since 2006. He has worked in the Banking and Finance industry for 30 years and is currently the Vice President of Keys Federal Credit Union. Mr. Bradford received his Bachelor's degree in Banking and Finance from the University of North Florida and had certifications in Consumer Lending, Cash Flow Analysis, and Accounting. He is a member of the City of Key West's Port Advisory Board and Workforce Housing Committee, Sunrise Rotary Club, and is past Chair of the Key West Chamber of Commerce and former member of KEYS Advisory Committee. Mr. Bradford has lived in the Florida Keys since 1980.

Mona C. Clark has served on the Utility Board since 2004 and holds the distinction of being the first female Board member in the Utility's history. She has worked for the Monroe County School District for over 30 years, serving as an educator and an administrator – she is currently the site Administrator at May Sands School. Ms. Clark received her Bachelor of Science in Education degree from Florida A&M University and her Masters of Education/leadership degree from the University of South Florida. Ms. Clark is the Chair of the Mayor's Revolving Loan Fund for

the City of Key West and Chair of the Citizen's Advisory Task Force for the Monroe County Housing Authority.

Management and Personnel

The Utility Board has organized management and employees of the System into departments, of which, Transmission and Distribution, Engineering and Control, and Management Services report to the General Manager of the System, and the remainder of which report to the Assistant General Manager and Chief Financial Officer. The Customer Service Department is responsible for customer service, collections and metering operations. The Finance Department is responsible for budgeting, System accounting, budget formulation and financial reporting.

The Transmission and Distribution Department is responsible for the operation and maintenance of transmission and distribution facilities. The Generation Department is responsible for the operation, fueling and maintenance of the generating facilities of the System, fleets and facilities and purchasing and warehousing. The Engineering and Control Department is responsible for System engineering, load forecasting, and the Control Center. The Management Services Department is responsible for employee and labor matters, strategic planning, coordination and tracking, environmental, risk management and compliance. An organization chart for the Utility Board is shown on Figure 3-1.

The staff of the System is under the direction of the General Manager and Chief Executive Officer, who is employed under contract with the Utility Board. The current management staff members of the System and their backgrounds are as follows:

Lynne E. Tejada, General Manager and Chief Executive Officer, has been employed by the Utility Board since January 1989, most recently as Assistant General Manager and Chief Operating Officer, prior to being appointed General Manager and Chief Executive Officer in December 2005. Ms. Tejada is responsible for the day-to-day management of the System, implementing the decisions of the Utility Board with respect to utility operations, and keeping the Utility Board informed of the status of the System. Ms. Tejada is active in the Florida Municipal Power Agency (FMPA) and the Florida Municipal Electric Association (FMEA). Ms. Tejada holds a Bachelor of Arts degree with a major in Journalism from the University of North Carolina at Chapel Hill, and a Master of Business Administration degree from Regis University in Denver, Colorado.

Ms. Tejada is currently serving on the Board of the Key West Chamber of Commerce.

John 'Jack' Wetzler, Assistant General Manager and Chief Financial Officer, has been employed by the Utility Board since April 1992, most recently as Director of Finance and Chief Financial Officer, prior to being appointed Assistant General Manager and Chief Financial Officer in December 2005. Mr. Wetzler is responsible for assisting the General

manager and Chief Executive Officer with the day-to-day operations of the System as well as overseeing the Finance, Customer Services, Generation, Fleets, Facilities, Information Technology, Purchasing and the Warehouse. He is active in the Florida Municipal Power Agency serving on the Financial Advisory Committee, Budget Committee and Operating Committee. Mr. Wetzler has been employed as the Vice President of Finance for several New York-based firms, including Caswell Massey, Ltd., D.F. Sanders & Company, and Concord Limousine Services. He began his career with Coopers & Lybrand, CPA's (currently known as PricewaterhouseCoopers). Mr. Wetzler holds a Bachelor of Business Administration degree from Hofstra University. Mr. Wetzler is co-owner of Millie's Key West, a convenience store near Mallory Square in Key West, and serves as an extra-ordinary Eucharistic Minister for Saint Mary's Star of the Sea Catholic Church.

Daniel S. Cassel, Director of Generation, has been employed by the System since December 1980, most recently as Superintendent of Generation, prior to being appointed Director of Generation in August 1999. Mr. Cassel is responsible for overseeing the Generation, Fleets & Facilities, Purchasing and Warehouse section. Mr. Cassel is working toward earning his Certified Public manager designation through Florida State University.

Dale Z. Finigan, Director of Engineering and Control, has been employed by the System since May 1987. In his tenure at the Utility Board, Mr. Finigan has held various supervisory positions related to substations and the Transmission & Distribution (T&D) system. In his current position, Mr. Finigan is responsible for both the Engineering Section (overseeing the design/maintenance of the System's electrical T&D infrastructure) and the System Control Center (24-hour a day manned control center for the monitoring of the System's electrical grid, and the dispatching of System trouble calls). Mr. Finigan holds a Bachelor of Science degree in Electrical Engineering, and a Masters Degree in Electrical Power Systems, with a minor in Engineering Management. Both degrees are accredited from the University of South Florida.

Suzanne Greager, Director of Management Services, has been employed by the Utility Board since March 1985, most recently as human Resources Director, prior to being appointed Director of Management Services in April 2002. Ms Greager is responsible for risk management, safety and employee records. Ms. Greager is a Certified Public Manager.

David Price, Director of Transmission and Distribution, has been employed by the Utility Board since January 1983, most recently as Assistant Director of Electrical Operations, prior to being appointed Director of Transmission and Distribution in June 2005. Mr. Price is responsible for the operation, construction, and maintenance of transmission, distribution, and substation facilities. Mr. Price holds a

Bachelor of Arts degree, with a major in Human Resources, from Saint Leo's University and is a Certified Public Manager.

Alex Tejada, Director of Customer Services, has been employed by the Utility Board since June 1982, most recently as Customer Services Superintendent, prior to being appointed Director of Customer Services in April 2002. Mr. Tejada is responsible for Collections, Customer Service, Customer Programs and Metering Services. Mr. Tejada is a Certified Public Manager.

As of September 30, 2006, there were 153 employees, including 41 considered as management. The number of employees by department during the past five fiscal years has been as follows:

	Fiscal Year Ending September 30				
	2002	2003	2004	2005	2006
General Manager	16	17	17	18	17
Engineering and Control	20	19	19	19	20
Customer Service	33	31	30	32	32
Finance	13	13	15	10	10
Transmission and Distribution	42	38	35	34	36
General Plant	9	9	8	0	0
Generation	<u>18</u>	<u>21</u>	<u>22</u>	<u>39</u>	<u>38</u>
Total Number of Employees	<u>151</u>	<u>148</u>	<u>146</u>	<u>152</u>	<u>153</u>

All non-management level employees are covered by a contract between the Utility Board and Local 1990 of the International Brotherhood of Electrical Workers ("IBEW"). The current contract with the IBEW was effective October 1, 2006 and will expire on September 30, 2009. Under the contract, the Utility Board (i) recognizes the rights of its employees to bargain collectively through representatives of their choosing; (2) recognizes the IBEW as the exclusive collective bargaining agent for all non-supervisory employees of the Utility Board; and (3) agrees to meet with the IBEW and bargain collectively in the determination of the rates of pay, hours of work, and all other terms and conditions of employment for employees within the bargaining unit. The Utility Board has had no work stoppages and considers its employee relations to be good.

The Utility Board has a defined benefit pension plan for all its employees. It is a non-contributory plan, which is funded solely by the Utility Board. The Utility Board's annual contribution is determined using the entry age actuarial cost method. The Utility Board reports that its contributions are more than sufficient to cover benefits and expenses of the pension plan.

Professional Services

From time to time, the Utility Board engages outside professional services for assistance in various specialized engineering, legal, and financial matters with regard

Section 3

to the System. During Fiscal Years 2002 through 2006, such professional services included the following:

Engineering - R. W. Beck, Inc. has acted as Consulting Engineer to the System since November 1986 and has prepared various studies with regard to power supply, financing, and rates. In addition, the Utility Board signed contracts with a variety of other consultants.

Legal - General Counsel to the Utility Board is provided by Nathan E. Eden, Esq., of Key West, Florida. Bryant Miller Olive, P.A., of Jacksonville, Florida, has served as Bond Counsel. Spiegel & McDiarmid has represented the Utility Board in power supply contractual matters. The Utility Board has been represented by Fred Bryant through its membership in FMPA and the Florida Municipal Electric Association (the "FMEA") in matters pertaining to State regulation. Rose, Sundstrom and Bentley are the environmental attorneys.

Accounting – The Utility Board retained the firm of Marva Green P.A., Inc., Certified Public Accountants, Key West, Florida, to perform the annual audit of the Utility Board's financial statements for Fiscal Year 2002 and Oropeza & Parks, Certified Public Accountants, Key West, Florida, for Fiscal Years 2003 through 2006.

Financial – Dunlap & Associates, of Winter Park, Florida, has acted as Financial Advisor to the Utility Board.

Audited Financial Statements

The Utility Board's Financial Statements and Independent Auditors Report ("Financial Statements") include the Utility Board's balance sheets as of September 30, 2002 through September 30, 2006, income statements, other relevant statements and notes to the Financial Statements. These reports were prepared by Marva Green P.A., Inc., Certified Public Accountants, and Oropeza & Parks, Certified Public Accountants, and are available on the KEYS website.

Planning Activities and Studies

The Utility Board has been holding planning retreats during the five year period 2002 through 2006. The stated purpose of the planning retreats is to establish strategies to position the Utility Board for survival and growth. At the annual planning retreat, the Utility Board's managers, direct reports, supervisors and Utility Board members review the Utility Board's mission, discuss the goals and objectives for the coming fiscal year, and establish funding criteria in order to prioritize the five year capital budget. The Utility Board's most recent Mission and Vision are as follows:

Mission: Provide exceptional customer service supplying safe, reliable electric and utility services at the best value.

Vision: Provide the residents and businesses of the Lower Keys with outstanding local service, environmental leadership, responsiveness and accessibility as only a hometown utility can.

Strategic Plan

The Utility Board and Electric System staff maintain and periodically update a Strategic Plan. The current accepted strategies are to (1) develop a methodology to operate with flat or declining sales; (2) create a stable, capable, committed work force; (3) maintain reasonable long-term reliability level compared to industry benchmarks and improve customer perceived reliability; (4) maximize benefits to KEYS from FMPA; and (5) maintain a high level of customer service and satisfaction. Focus areas, action plans and project leaders have been assigned to each strategy.

Rate Studies

In fiscal year 2006, the Utility Board hired R. W. Beck, Inc. to conduct an electric rate study, which showed that as a result of the Utility Board's capital improvement plan and continuing inflationary pressures, a base rate increase of 4.0% is needed in fiscal year 2007. The study, which examined a five year period beginning in fiscal year 2007, indicated that another base rate increase of approximately 4.5% would be needed in fiscal year 2009 and a further base rate increase of approximately 4.5% would be needed in fiscal year 2011. The Utility Board approved the rate increase for fiscal year 2007 on August 23, 2006 and notified the PSC in September 2006. An additional 4.0 cents per kWh was included in the base rates for a total of 8.0 cents per kWh.

Marketing and Communication Plan

During Fiscal Year 2001, the Electric System staff began work on its new Marketing and Communications Plan, which was implemented in Fiscal Year 2002. This plan included a new corporate identity, "Keys Energy Services"; new products and services such as residential power sentry, energy survey and electronic debit; key accounts program; corporate community involvement; crisis communications; and updating of the website.

Information Technology Master Plan

In Fiscal Year 2001, the Electric System senior management undertook the development of an Information Technology ("IT") Master Plan, which was developed by Semtor, Inc., an IT consulting firm. The main goal of the plan is to provide strategic direction on a three to five year horizon relative to information technologies. Specifically, the objectives of the IT Master Plan are to: (i) identify and address the

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needs of technology users throughout the organization; (ii) prioritize technology options and related initiatives; (iii) facilitate the Electric System decision making; and (iv) integrate IT with the Electric System strategic planning objectives.

The IT Master Plan Report is designed to allow the Electric System to: (i) better understand the state of technology throughout the organization; (ii) fully leverage the current investment in IT and related resources; (iii) introduce technologies not currently leveraged; (iv) better position the organization to take advantage of emerging technologies; and (v) help direct capital to the appropriate technologies.

KEYS currently uses the Northstar software system from Harris Computer Systems for its entire customer related functions. This system contains the customer data base, all billing functions, and meter interface programs.

Budgeting Process

The Utility Board begins its budgeting process for the ensuing fiscal year (October 1 to September 30) when each of the department heads submits proposed operating expenses and capital expenditures for the coming fiscal year to the Finance department for compilation. The General Manager and department heads review and develop a proposed budget. Upon completion of a proposed budget, public workshop sessions are held by the Utility Board to review all proposed budget items. The proposed budget thereupon is submitted to the members of the Utility Board for their final review and adoption prior to the commencement of the succeeding fiscal year. Upon valid adoption, all expenditures in the budget constitute appropriations, and amendments to the budget can only be made in accordance with the provisions of law.

Starting with the fiscal year ending September 30, 2000 budget, the Electric System now prepares a five year plan that is approved by the Utility Board and is included as part of its annual budget document.

The budgeting process allows budget amendments throughout the year. The staff has the authority to make changes within either the capital or operations and maintenance ("O&M") budgets as long as the total amount in either respective budget does not change. The change is reported at the next Utility Board meeting. Changes in the budget that exceed the Enabling Act limitation, affect Utility Board approved bids, increase the total O&M or capital budget or involve transfers between the O&M and capital budget requires Utility Board approval.

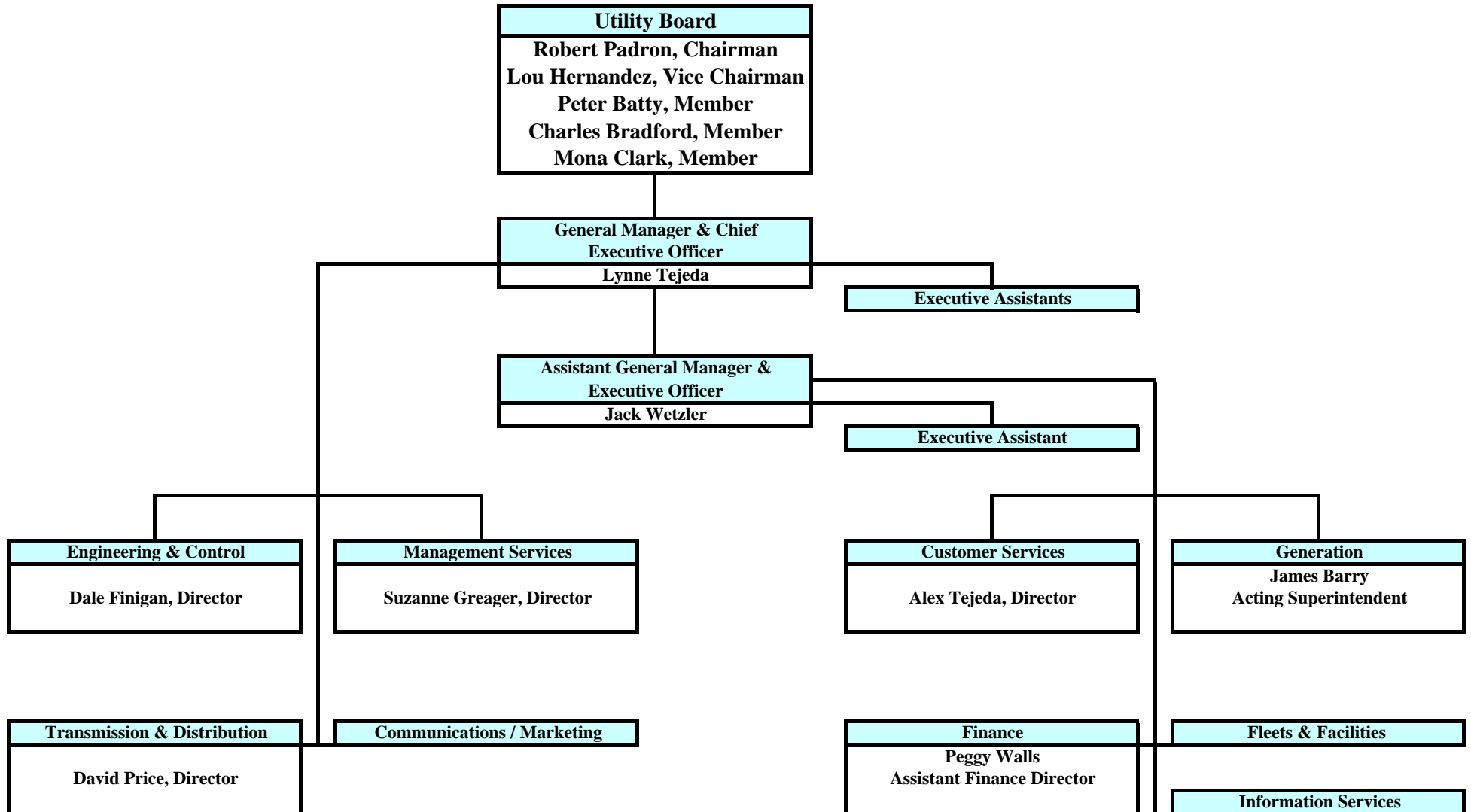
Compliance with the budget is monitored on a continuing basis. Monthly financial and operating statements are prepared and distributed to the members of the Utility Board, its staff and others. The reports provide:

- (i) EXECUTIVE SUMMARY
- (ii) BALANCE SHEETS
Current to Prior Year Comparison

- (iii) FUND BALANCES GRAPHIC COMPARISON
- (iv) STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN
NET ASSETS – YEAR-TO-DATE
Current to Prior Year Comparison with Variance Analysis
- (v) REVENUE AND KWH SALES GRAPHIC COMPARISON
- (vi) OPERATIONS & MAINTENANCE EXPENSE GRAPHIC
COMPARISON
Actual to Budget
- (vii) BUDGET TO ACTUAL EXPENDITURE GRAPHIC COMPARISON
Capital, Construction and Operation and Maintenance Expense
- (viii) DEBT SERVICE COVERAGE - CALCULATION
Based on Twelve Month Ended

Figure 3-1

UTILITY BOARD OF THE CITY OF KEY WEST
Organizational Chart



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Sufficiency of Rates and Charges for Service



Sufficiency of Rates and Charges for Service

Rate Covenant

The Resolution No. 532, as amended and supplemented, contains the following covenants of the Utility Board set forth in Article V, Section 5.01(B), Rate Resolution, and Section 5.01(C), No Free Service concerning rates and charges for service.

"B. RATE RESOLUTION. The Board covenants to fix, establish, revise from time to time whenever necessary, maintain and collect always such fees, rates, rentals and other charges for the use of the product, services and facilities of the System which will always provide Revenues in each Fiscal Year sufficient to pay, and out of such funds pay, 100% of all Operating Expenses of the System in such year and all reserve or other payments herein required, and 125% of the Debt Service Requirement in such Fiscal Year on the outstanding 1985 Bonds and on all outstanding Additional Parity Obligations. Such rates, fees, rentals or other charges shall not be reduced so as to be insufficient to provide Revenues for such purposes.

The Board further covenants and agrees that the Board will annually within thirty (30) days after adoption of the budget described in the preceding Paragraph 5.01(A) revise such fees, rates, rentals and other charges for the use of the product, services and facilities of the System to the extent necessary for the estimated Gross Revenues to be derived from the operation of the System during the next succeeding Fiscal Year to increase over the amount of actual Gross Revenues from the operation of the System for the next preceding Fiscal Year by the amount that the estimated Operating Expenditures during such next succeeding Fiscal Year shall exceed the actual Operating Expenses of the System during such next preceding Fiscal Year.

During such time as there shall be a Credit Facility with respect to Series 1985 Bonds outstanding, the Board will provide monthly reports showing debt service coverage (Net Revenues available for debt service for the preceding 12-month period divided by the Debt Service Requirement for such period) for the preceding 12-month period. If such schedule at any time shows a debt service coverage of less than 125%, the Board will cause the Consulting Engineers to prepare and submit a report within sixty (60) days that determines the level at which rates must be set to produce a debt service coverage of 130% and shall revise rates within thirty (30) days of receipt of such report to the level recommended in such Consulting Engineer's Report. The Board shall

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maintain rates at a level recommended by the Consulting Engineers as necessary to maintain a debt service coverage of 130% for thirty-six (36) consecutive months. Thereafter, debt service coverage may be reduced to 125%.

C. NO FREE SERVICE. The Board will not render or cause to be rendered any free services of any nature by its System, nor will any preferential rates be established for users of the same class. Whenever the City, including its departments, agencies and instrumentalities, shall avail itself of the product, facilities or services provided by the System, or any part thereof, the same rates, fees or charges applicable to other customers receiving like services under similar circumstances shall be charged to the City and any such department, agency or instrumentality. Such charges shall be paid as they accrue, and the City shall transfer from its general funds to the Board for deposit into the Revenue Fund sufficient sums to pay such charges or payment of such charges may be withheld by the Board from the payments authorized to be made pursuant to Section 3.03(B)(10) of this Resolution. The revenues so received or withheld shall be deemed to be Revenues derived from the operation of the System, and shall be deposited and accounted for in the same manner as other Revenues derived from such operation of the System."

Rate Schedules

The last change in base rates approved by the Utility Board became effective with bills rendered on and after October 1, 2006. The prior rate change was effective October 1, 2001. In general, the rate schedules for individual rate classifications include provisions for availability, applicability, character of service, power cost adjustment, tax adjustment, and where applicable, certain other provisions applicable to certain individual schedules such as senior citizens' discount, determination of billing demand, and power factor clause.

The Utility Board has a contractual arrangement with the U.S. Navy, the largest customer of the System. Energy sales during the period fiscal year 2002 through 2006 as shown below:

Sales to U.S. Navy	
<u>Fiscal Year</u>	<u>GWh</u>
2002	76.9
2003	76.7
2004	75.6
2005	75.3
2006	64.7

The Utility Board and the United States of America (the "Government") entered into the current contract for service to the U.S. Navy (the "Navy Contract") on August 15, 1997. The Navy Contract, has been amended and supplemented, and has been extended to September 1, 2007, with all terms and conditions remaining the same from the prior extension. It is anticipated that a renegotiated contract will be signed by the Utility Board in September 2007.

Table 4-1 sets forth the monthly base rates for electric service for each rate class. Detailed provisions of the various rate schedules and terms and conditions are contained in the City Ordinances, the Utility Board's Customer Service Policy Manual, and the Utility Board's electric tariff sheets currently filed with the FPSC.

Power Cost Adjustment Clause

The goal of a power cost adjustment clause is to track and recover, to the extent possible, the actual fuel and purchased power costs experienced in order to meet the energy and demand requirements of customers. The power cost adjustment clause provides for application of a monthly adjustment factor per kWh of sales in order to reflect the deviation in the actual fuel and total purchased power costs, including associated transmission costs, from the portion of such costs included in the base rate (4.00 cents per kWh for fiscal years 2002 through 2006 and 8.00 cents per kWh beginning in October 2006). The formula used to develop the power cost adjustment factor is on a one month forward looking basis and includes a "true-up" provision. The clause also provides that the factor can be adjusted for any applicable gross receipts tax or other tax that may be imposed by any municipal, state, or federal taxing body.

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The monthly billed power cost adjustment factors for the Fiscal Years 2002 through 2006 are shown below.

Month	Units	Fiscal Year Ending September 30 ^{[1] [2]}				
		2002	2003	2004	2005	2006
October	Mills/kWh	16.5	4.1	22.3	24.4	44.5
November	Mills/kWh	10.0	4.1	22.3	24.4	44.5
December	Mills/kWh	10.0	9.0	22.3	24.4	46.0
January	Mills/kWh	10.0	12.0	22.3	24.4	46.0
February	Mills/kWh	10.0	14.0	22.3	24.4	46.0
March	Mills/kWh	9.0	14.0	22.3	27.2	46.0
April	Mills/kWh	9.0	14.0	22.3	27.2	55.0
May	Mills/kWh	9.0	17.0	22.3	27.2	55.0
June	Mills/kWh	4.1	17.5	22.3	27.2	55.0
July	Mills/kWh	4.1	17.5	22.3	27.2	55.0
August	Mills/kWh	4.1	17.5	24.4	28.8	45.0
September	Mills/kWh	<u>4.1</u>	<u>17.5</u>	<u>24.4</u>	<u>32.8</u>	<u>45.0</u>
Average ^[3]	Mills/kWh	<u>8.3</u>	<u>13.2</u>	<u>22.7</u>	<u>26.6</u>	<u>48.6</u>

[1] Amount of power cost included in base rates was 4.0 cents per kWh in fiscal years 2002 through 2006. Beginning October 1, 2006 the amount of power cost included in the base rate was increased to 8.0 cents per kWh.

[2] Amounts are historical billed power cost adjustments.

[3] Based on a simple 12 month average.

Comparison of Rates

The table below summarizes the Utility Board's monthly residential electric rates for each Fiscal Year since 1990 for 1,000 kWh based on an average power cost adjustment.

Fiscal Year	\$/1000 kWh
1990	89.36
1991	89.96
1992	83.29
1993	86.98
1994	85.27
1995	83.96
1996	85.74
1997	90.89
1998	92.26
1999	88.74
2000	86.98
2001	99.18
2002	94.23
2003	99.08
2004	108.55
2005	112.53
2006	134.48

A comparison of typical monthly bills calculated pursuant to the Utility Board's residential, general service (small commercial) and large power rates with those of other electric utilities in Florida appears on Tables 4-2, 4-3, and 4-4, respectively. The rate comparisons include fuel or energy cost adjustment charges as reported by various publicly-owned and investor-owned electric utilities in the State of Florida. Fuel or energy cost adjustments vary widely according to the term of the individual adjustment clauses used by the different utilities and according to the reliance of the utility on higher cost oil rather than other fuels. The comparisons presented are predicated on rates, including appropriate fuel or energy cost adjustment factors, billed during the month of January 2007.

The monthly bills shown in the comparisons in this section are exclusive of discounts, local taxes, surcharges, or franchise fees, if any. For retail customers of the investor-owned utilities, Progress Energy and Florida Power & Light, franchise fee charges range from zero in certain unincorporated areas to over 6% of the total bill in some municipalities.

In general, the rates for the Utility Board are among the higher rates of the utilities shown in the rate comparisons. This is due largely to the island conditions under which services are provided. For instance, the Utility Board (i) maintains relatively higher capacity reserves to provide reliable service; (ii) experiences greater transmission losses and costs due to its remote location; (iii) relies on oil fueled resources for on-island generation facilities due to the lack of available alternative fuels such as gas and coal; and (iv) operated in environmentally hostile conditions (salt spray). It should be noted however, that the rate comparisons demonstrate that the rates for the Utility Board are not the highest in the State.

Miscellaneous Charges

In addition to the rates shown in Table 4-1, the Utility Board maintains certain other charges and fees. The initial connect charge for a new service is \$15.00, and the reconnect charge is \$15.00 for reconnection of service at an existing location. When service has been disconnected because of nonpayment of the bill, the reconnect charge is (i) \$25.00 to reconnect service at the meter during the working hours 8:00 a.m. to 4:00 p.m.; (ii) \$50.00 to reconnect service at the meter after 4:00 p.m.; and (iii) \$75.00 to reconnect service at the pole.

There is a bad check charge of the greater of \$20.00 or 5.0 percent of face value of the check when a customer's check or similar instrument received by the Utility Board for bill payment does not clear the bank on which it was drawn. The line extension charge of \$600.00 per pole must be paid by the initial customer if additional poles are required for a line extension.

If a customer requests testing of a meter which has not been tested within twelve months prior to such request, there is no meter test charge. Otherwise, a meter test charge of \$15.00 may be required and retained if the results of the meter test are within allowable operating limits.

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If a customer violates the Utility Board's "Contract for Service" by using, taking, or diverting electric energy for private use without making payment for the service rendered by tampering or altering the meter or other devices operated or controlled by the Utility Board, an administrative charge of \$250.00 is assessed in addition to an adjustment of the electric bill.

In addition to the initial connection charge, a customer requesting initial permanent service at a new service location will pay the following charge for installation of the meter and accessory equipment: \$100.00 for single phase (self-contained meter), \$375.00 for three phase (self-contained meter), \$500.00 for secondary service (instrument meter on secondary), \$2,300.00 for primary-type I service (instrument meter on primary for loads under 450 kW), and \$3,300 for primary-type II service (instrument meter on primary for loads of 450 kW or greater). For any upgrade in metering equipment at an existing service location, the Utility Board may assess a charge for the additional costs.

The Utility Board charges a contribution in aid of construction ("CIAC") for new service locations or for increased service requirements at existing locations to meet the new electric requirements (exclusive of metering and accessory equipment). The existing CIAC charge, effective October 1, 1999 provides that:

- (i) The charge for new residential accounts shall be \$350.00;
- (ii) The charge for new non-residential accounts shall be \$70.00 per kW of estimated peak load;
- (iii) In all cases, the minimum charge shall be \$350.00; and
- (iv) Any change in an existing non-residential service account shall be charged \$70.00 per kW over that which previously existed. "Existing Service" shall mean an account that has been billed by and paid to the Utility Board within one year of application for service.

For customers requesting initial non-residential, commercial or large power service, the expected peak load will be determined by the Utility Board. If observed loads vary from estimated loads, the Utility Board shall reserve the right to make adjustments to the CIAC initially charged. The Utility Board may waive the CIAC charge upon presentation of competent evidence satisfactory to the Utility Board that an additional account at an existing service location will not create any potential demand increase.

Effective October 1, 2001, the Utility Board implemented line extension charges for underground facilities. These charges include \$42 per linear foot for single phase trench and power cable and \$47 per linear foot for three phase trench and power cable. Electrical manholes have a \$3,500 charge, and transformer and foundation charges are \$3,000, \$3,500 and \$4,300 for single phase, three phase (150-500 kVA) and three phase (750 kVA), respectively. Asphalt on the trench is charged at \$10 per linear foot and communication conduits are charged at \$15 per linear foot.

The Utility Board's electric rates and charges, including miscellaneous charges, have been filed with and approved by the FPSC.

Adequacy of Revenues

The Utility Board's historical operating results for the five fiscal years ended September 30, 2006 are shown on Table 4-5. The data shown was obtained from the Utility Board's audited Financial Statements and the monthly Financial and Operating Statements prepared by the Utility Board. The historical operating results presented on Table 4-5 are generally presented on a flow of funds basis as prescribed in the Resolution and therefore are not presented in the same format as the audited Financial Statements. As can be seen from the table, revenues were sufficient in each year to comply with the rate covenant contained in the Resolution with regard to payment of operating expenses of the System, payment of debt service, and debt service coverage requirements.

Additionally, revenues were sufficient to pay other funding requirements of the System, including payment of capital improvements payable from revenues, transfers to the rate stabilization fund, and transfers to the City.

The Utility Board has established a rate stabilization fund for the purpose of keeping rates relatively stable. The Board may deposit such amounts as the Board deems necessary or desirable. Each month the Board transfers from the rate stabilization fund to the revenue fund the amount budgeted as set forth in the annual budget or an amount otherwise determined by the Board. As of September 30, 2006, the balance in the Rate Stabilization Fund was \$3,925,074. The budgeted transfer to the Rate Stabilization Fund in Fiscal Year 2007 is \$1,400,000.

Table 4-1

UTILITY BOARD OF THE CITY OF KEY WEST

Monthly Rates for Electric Service [1] [2]*Effective as of October 1, 2006*

Line No.	Class of Service	Schedule	Customer Charge (\$/Customer)	Energy Charge (Cents/kWh)	Demand Charge (\$/kW)	Fixture Charge (\$/Fixture)	Effective Date
	(a)	(b)	(c)	(d)	(e)	(f)	(g)
Residential and Commercial Service							
1	Residential Service [3]	R (110 Rate)	\$6.24	12.31 ¢			10/1/2006
2	Small Commercial Service	SC (210 Rate)	\$6.76	12.78 ¢			10/1/2006
3	Large Commercial Service	LC (214 Rate)	\$19.24	10.29 ¢	\$6.71		10/1/2006
4	Large Commercial - Primary	LP (215 Rate)	\$19.24	10.22 ¢	\$6.45		10/1/2006
5	Large Power Service for Churches	A (217 Rate)	\$19.24	12.31 ¢	\$1.87		10/1/2001
6	Military Service [4]	M.S.	\$19.24	10.22 ¢	\$6.71		10/1/2006
Street Lighting Service							
7	100 Watt Sodium Vapor	S-1				\$7.60	10/1/2006
8	200 Watt Sodium Vapor	S-1				\$11.46	10/1/2006
9	400 Watt Sodium Vapor	S-1				\$17.97	10/1/2006
10	100 Watt M250A2 Sodium Vapor	S-1				\$8.13	10/1/2006
11	200 Watt M250A2 Sodium Vapor	S-1				\$11.53	10/1/2006
12	175 Watt Mercury Vapor	S-1				\$10.53	10/1/2006
13	250 Watt Mercury Vapor	S-1				\$13.44	10/1/2006
14	400 Watt Mercury Vapor	S-1				\$18.00	10/1/2006
Governmental Recreational							
15	Facility Lighting Service	S-2	19.54 per meter	14.86 ¢			10/1/2006
Private Area Lighting Service							
16	100 Watt Standard Sodium Vapor	S-3				\$10.39	10/1/2006
17	100 Watt Cobra Sodium Vapor	S-3				\$10.39	10/1/2006
18	200 Watt Cobra Sodium Vapor	S-3				\$16.54	10/1/2006
19	100 Watt M250A2 Sodium Vapor	S-3				\$10.39	10/1/2006
20	200 Watt M250A2 Sodium Vapor	S-3				\$13.83	10/1/2006
21	175 Watt Mercury Vapor	S-3				\$12.83	10/1/2006
22	400 Watt Mercury Vapor	S-3				\$20.25	10/1/2006
23	Pole Installation Charge [5]	S-3				\$622.48	10/1/2006

[1] Based on tariff information provided by the Utility Board.

[2] Rates shown exclude the Power Cost Adjustment and applicable taxes.

[3] This service includes a discount equal to \$6.24 per billing that has been established for any residential customer (i) who is sixty-two (62) years or older or who is a permanently disabled American veteran, and (ii) meets certain maximum annual income requirements established by the Utility Board of the City of Key West.

[4] For primary service, a 5% discount is applied to the demand charge.

[5] Includes an initial charge of \$310.48 and prepayment of one year's monthly charge of \$26.00 per month.

**Table 4-2
UTILITY BOARD OF THE CITY OF KEY WEST**

Inter-Utility Comparison of Typical Monthly Electric Bills ^[1]

Utility	Jan. 2007 Fuel Adj. \$/1000 kWh	Residential Class							
		250 kWh	500 kWh	750 kWh	1,000 kWh	1,500 kWh	2,000 kWh	2,500 kWh	3,000 kWh
1 Utility Board of the City of Key West	\$0.00	\$37.02	\$67.79	\$98.57	\$129.34	\$190.89	\$252.44	\$313.99	\$375.54
Florida Municipalities:									
2 Fort Pierce Utilities Authority	25.76	33.14	60.52	87.89	117.76	177.51	237.25	297.00	356.74
3 City of Gainesville	41.00	21.42	46.17	70.92	101.92	163.92	225.92	287.92	349.92
4 City of Homestead	40.95	33.41	61.33	89.24	117.15	172.98	228.80	284.63	340.45
5 Jacksonville Electric Authority	38.68	26.21	46.92	67.62	88.33	129.75	171.16	212.58	253.99
6 Kissimmee Utilities Authority	(3.66)	31.59	53.01	74.43	95.85	145.02	194.18	243.35	292.51
7 City of Lakeland	65.00	34.49	62.63	90.77	118.91	177.16	237.41	297.67	357.92
8 City of Lake Worth Utilities Commission, City of	27.50	35.15	62.87	90.60	118.32	173.77	229.22	284.67	340.12
9 New Smyrna Beach	45.29	36.09	66.52	96.96	127.39	188.26	249.13	310.00	370.87
10 City of Ocala	20.20	30.97	54.95	78.92	102.89	150.84	198.78	246.73	294.67
11 Orlando Utilities Commission	32.58	29.74	52.48	75.21	97.95	148.43	198.90	249.38	299.85
12 City of Tallahassee	79.42	38.67	71.60	104.52	137.44	203.29	269.13	334.98	400.82
13 City of Vero Beach	32.70	34.41	61.61	88.81	116.01	170.41	224.81	279.21	333.61
REA Cooperatives:									
14 Glades Electric Cooperative	33.50	40.38	70.25	100.13	130.00	189.75	249.50	309.25	369.00
15 Lee County Electric Cooperative ^[2]	29.50	31.65	58.30	84.95	111.60	164.90	218.20	271.50	324.80
Investor-Owned Utilities: ^[3]									
16 Florida Power and Light	54.20	29.11	53.05	76.98	100.92	160.90	220.88	280.86	340.84
17 Gulf Power Company	39.59	32.33	54.66	76.99	99.32	143.98	188.64	233.30	277.96
18 Progress Energy	47.98	37.52	67.02	96.51	126.00	194.99	263.97	332.96	401.94
19 Tampa Electric Company	59.22	34.30	60.09	85.89	111.68	163.27	214.86	266.45	318.04

[1] Amounts shown are based on the rates for single phase service and reflect when applicable, inside city service. In addition, amounts include January 2007 fuel adjustments but do not include taxes or franchise fees.

[2] Amounts shown reflect the winter rates for the period as reflected in each utility's electric rate tariff.

[3] Amounts shown include the energy conservation, capacity, environmental and storm cost recovery charges where appropriate, as filed with the Florida Public Service Commission (FPSC).

**Table 4-3
UTILITY BOARD OF THE CITY OF KEY WEST**

Inter-Utility Comparison of Typical Monthly Electric Bills ^[1]

Utility	Jan. 2007 Fuel Adj. \$/1000 kWh	General Service Non-Demand Class							
		250 kWh	500 kWh	750 kWh	1,000 kWh	1,500 kWh	2,000 kWh	2,500 kWh	3,000 kWh
1 Utility Board of the City of Key West	\$0.00	\$38.71	\$70.66	\$102.61	\$134.56	\$198.46	\$262.36	\$326.26	\$390.16
Florida Municipalities:									
2 Fort Pierce Utilities Authority	25.76	35.32	65.04	94.75	124.46	183.89	243.31	302.74	362.16
3 City of Gainesville	41.00	39.30	63.42	87.54	111.66	159.90	180.40	200.90	221.40
4 City of Homestead	40.95	37.29	67.08	96.86	126.65	186.23	245.80	305.38	364.95
5 Jacksonville Electric Authority	38.68	26.42	46.34	66.26	86.18	126.02	165.86	205.70	245.54
6 Kissimmee Utilities Authority	(3.66)	35.30	59.52	83.73	107.95	156.39	204.82	253.26	301.69
7 City of Lakeland	65.00	36.01	63.77	91.52	119.28	174.80	230.31	285.83	341.34
8 City of Lake Worth Utilities Commission, City of	27.50	44.48	75.95	107.43	138.90	201.85	264.80	327.75	390.70
9 New Smyrna Beach	45.29	36.00	65.95	95.89	125.84	185.74	245.63	305.53	365.42
10 City of Ocala	20.20	30.97	54.95	78.92	102.89	150.84	198.78	246.73	294.67
11 Orlando Utilities Commission	35.35	32.12	56.25	80.37	104.49	152.74	200.98	249.23	297.47
12 City of Tallahassee	79.42	37.09	66.92	96.76	126.59	186.26	245.93	305.60	365.27
13 City of Vero Beach	32.70	35.53	63.03	90.53	118.03	173.03	228.03	283.03	338.03
REA Cooperatives:									
14 Glades Electric Cooperative	33.50	43.88	75.25	106.63	138.00	200.75	263.50	326.25	389.00
15 Lee County Electric Cooperative	29.50	34.05	63.10	92.15	121.20	179.30	237.40	295.50	353.60
Investor-Owned Utilities: ^[2]									
16 Florida Power and Light	57.74	34.19	60.14	86.08	112.03	163.93	215.82	267.72	319.61
17 Gulf Power Company	39.59	37.06	61.11	85.17	109.22	157.33	205.44	253.55	301.66
18 Progress Energy	51.39	40.63	70.65	100.66	130.67	190.70	250.72	310.75	370.77
19 Tampa Electric Company	59.22	34.25	60.01	85.76	111.51	163.02	214.52	266.03	317.53

[1] Amounts shown are based on the rates for single phase service and reflect when applicable, inside city service. In addition, amounts include January 2007 fuel adjustments but do not include taxes and franchise fees.

[2] Amounts shown include the energy conservation, capacity and environmental cost recovery charges where appropriate, as filed with the Florida Public Service Commission (FPSC).

**Table 4-4
UTILITY BOARD OF THE CITY OF KEY WEST**

Inter-Utility Comparison of Typical Monthly Electric Bills [1]

Utility		General Service Demand Class								
		50 kW			75 kW			150 kW		
		10,000 kWh	20,000 kWh	30,000 kWh	15,000 kWh	30,000 kWh	45,000 kWh	30,000 kWh	40,000 kWh	60,000 kWh
1	Utility Board of the City of Key West	\$1,384	\$2,413	\$3,442	\$2,066	\$3,609	\$5,153	\$4,113	\$5,142	\$7,200
	<u>Florida Municipalities:</u>									
2	Fort Pierce Utilities Authority	1,238	2,114	2,990	1,839	3,152	4,466	3,640	4,516	6,267
3	City of Gainesville	983	1,633	2,283	1,466	2,441	3,416	2,916	3,566	4,866
4	City of Homestead	1,278	2,333	3,388	1,961	3,544	5,126	4,013	5,068	7,178
5	Jacksonville Electric Authority	896	1,477	2,057	1,319	2,190	3,061	2,587	3,168	4,330
6	Kissimmee Utilities Authority	1,140	1,781	2,421	1,683	2,643	3,604	3,310	3,950	5,231
7	City of Lakeland	1,158	2,040	2,922	1,723	3,045	4,368	3,415	4,297	6,061
8	City of Lake Worth Utilities Commission, City of	1,477	2,454	3,431	2,191	3,656	5,122	4,331	5,308	7,262
9	New Smyrna Beach	1,316	2,324	3,331	1,957	3,469	4,980	3,881	4,889	6,904
10	City of Ocala	996	1,674	2,352	1,484	2,501	3,517	2,947	3,625	4,980
11	Orlando Utilities Commission	886	1,433	1,979	1,322	2,141	2,961	2,629	3,175	4,268
12	City of Tallahassee	1,295	2,187	3,037	1,922	3,260	4,535	3,804	4,696	6,481
13	City of Vero Beach	1,134	2,047	2,765	1,683	3,053	4,130	3,330	4,243	6,069
	<u>REA Cooperatives:</u>									
14	Glades Electric Cooperative	1,353	2,488	3,623	2,014	3,716	5,419	3,998	5,133	7,403
15	Lee County Electric Cooperative	1,146	2,027	2,908	1,712	3,033	4,355	3,408	4,289	6,051
	<u>Investor-Owned Utilities [2] :</u>									
16	Florida Power and Light	1,096	1,833	2,571	1,628	2,734	3,841	3,223	3,961	5,436
17	Gulf Power Company	937	1,568	2,198	1,388	2,334	3,280	2,740	3,371	4,633
18	Progress Energy	1,116	2,049	2,982	1,669	3,068	4,467	3,327	4,259	6,125
19	Tampa Electric Company	1,129	1,854	2,578	1,673	2,760	3,846	3,303	4,028	5,477

[1] Amounts shown are based on the rates for single phase service and reflect when applicable, inside city service. In addition, amounts include January 2007 fuel adjustments but do not include taxes or franchise fees.

[2] Amounts shown include the energy conservation, capacity and environmental cost recovery charges where appropriate, as filed with the Florida Public Service Commission (FPSC).

**Table 4-4
UTILITY BOARD OF THE CITY OF KEY WEST**

Inter-Utility Comparison of Typical Monthly Electric Bills [1]

Utility		General Service Demand Class								
		200 kW			300 kW			400 kW		
		40,000 kWh	80,000 kWh	120,000 kWh	60,000 kWh	120,000 kWh	180,000 kWh	80,000 kWh	160,000 kWh	240,000 kWh
1	Utility Board of the City of Key West	\$5,477	\$9,593	\$13,709	\$8,206	\$14,380	\$20,554	\$10,935	\$19,167	\$27,399
	<u>Florida Municipalities:</u>									
2	Fort Pierce Utilities Authority	4,841	8,343	11,846	7,242	12,496	17,750	9,643	16,649	23,655
3	City of Gainesville	3,883	6,483	9,083	5,816	9,716	13,616	7,749	12,949	18,149
4	City of Homestead	5,380	9,600	13,820	8,115	14,445	20,775	10,850	19,290	27,730
5	Jacksonville Electric Authority	3,433	5,756	8,080	5,125	8,610	12,094	6,816	11,463	16,109
6	Kissimmee Utilities Authority	4,395	6,956	9,517	6,564	10,406	14,248	8,734	13,856	18,979
7	City of Lakeland	4,544	8,071	11,599	6,800	12,092	17,383	9,057	16,112	23,168
8	City of Lake Worth Utilities Commission, City of	5,758	9,666	13,574	8,612	14,474	20,336	11,466	19,282	27,098
9	New Smyrna Beach	5,164	9,194	13,224	7,729	13,774	19,819	10,294	18,354	26,414
10	City of Ocala	3,922	6,633	9,345	5,873	9,940	14,006	7,823	13,246	18,668
11	Orlando Utilities Commission	3,500	5,685	7,871	5,243	8,521	11,798	6,985	11,356	15,726
12	City of Tallahassee	5,059	8,628	12,028	7,568	12,921	18,022	10,078	17,215	24,016
13	City of Vero Beach	4,428	8,080	10,952	6,624	12,102	16,410	8,820	16,124	21,868
	<u>REA Cooperatives:</u>									
14	Glades Electric Cooperative	5,670	9,690	13,710	8,480	14,510	20,540	11,290	19,330	27,370
15	Lee County Electric Cooperative	4,539	8,063	11,587	6,801	12,087	17,373	9,063	16,111	23,159
	<u>Investor-Owned Utilities [2] :</u>									
16	Florida Power and Light	4,287	7,238	10,188	6,414	10,840	15,267	8,542	14,443	20,345
17	Gulf Power Company	3,642	6,165	8,689	5,446	9,231	13,015	7,249	12,296	17,342
18	Progress Energy	4,432	8,163	11,894	6,642	12,239	17,836	8,853	16,315	23,778
19	Tampa Electric Company	4,390	7,289	10,187	6,565	10,912	15,260	8,739	14,536	20,332

[1] Amounts shown are based on the rates for single phase service and reflect when applicable, inside city service. In addition, amounts include January 2007 fuel adjustments but do not include taxes or franchise fees.

[2] Amounts shown include the energy conservation, capacity and environmental cost recovery charges where appropriate, as filed with the Florida Public Service Commission (FPSC).

**Table 4-4
UTILITY BOARD OF THE CITY OF KEY WEST**

Inter-Utility Comparison of Typical Monthly Electric Bills [1]

Utility		General Service Large Demand Class								
		500 kW			1,000 kW			1,500 kW		
		100,000 kWh	200,000 kWh	300,000 kWh	200,000 kWh	400,000 kWh	600,000 kWh	300,000 kWh	600,000 kWh	900,000 kWh
1	Utility Board of the City of Key West	\$13,664	\$23,954	\$34,244	\$27,309	\$47,889	\$68,469	\$40,954	\$71,824	\$102,694
	<u>Florida Municipalities:</u>									
2	Fort Pierce Utilities Authority	12,045	20,802	29,559	24,052	41,566	59,080	36,059	62,330	88,601
3	City of Gainesville	9,682	16,182	22,682	18,814	31,714	44,614	28,189	47,539	66,889
4	City of Homestead	13,585	24,135	34,685	27,260	48,360	69,460	40,935	72,585	104,235
5	Jacksonville Electric Authority	8,508	14,316	20,124	17,986	28,522	39,058	26,879	42,683	58,487
6	Kissimmee Utilities Authority	11,704	17,271	22,837	23,351	34,484	45,617	34,997	51,697	68,397
7	City of Lakeland	12,289	20,577	28,865	24,202	40,778	57,354	36,115	60,979	85,843
8	City of Lake Worth Utilities Commission, City of	14,320	24,090	33,860	28,590	48,130	67,670	42,860	72,170	101,480
9	New Smyrna Beach	12,859	22,934	33,009	25,684	45,834	65,984	38,509	68,734	98,959
10	City of Ocala	9,774	16,552	23,330	19,527	33,083	46,639	29,280	49,614	69,948
11	Orlando Utilities Commission	8,728	14,191	19,654	17,067	27,619	38,171	25,593	41,421	57,249
12	City of Tallahassee	12,547	21,429	29,910	25,054	42,818	59,779	37,561	64,207	89,649
13	City of Vero Beach	10,999	20,129	27,379	21,929	40,189	54,689	32,859	60,249	81,999
	<u>REA Cooperatives:</u>									
14	Glades Electric Cooperative	14,625	24,575	34,525	29,075	48,975	68,875	43,525	73,375	103,225
15	Lee County Electric Cooperative	11,325	20,135	28,945	22,635	40,255	57,875	33,945	60,375	86,805
	<u>Investor-Owned Utilities [2] :</u>									
16	Florida Power and Light	10,967	18,056	25,145	21,896	36,074	50,252	32,825	54,092	75,359
17	Gulf Power Company	10,110	15,690	21,270	20,065	31,225	42,385	30,020	46,760	63,500
18	Progress Energy	11,064	20,392	29,720	22,117	40,773	59,429	33,170	61,154	89,138
19	Tampa Electric Company	10,913	18,159	25,405	21,909	36,313	50,717	32,736	54,342	75,948

[1] Amounts shown are based on the rates for single phase service and reflect when applicable, inside city service. In addition, amounts include January 2007 fuel adjustments but do not include taxes or franchise fees.

[2] Amounts shown include the energy conservation, capacity and environmental cost recovery charges where appropriate, as filed with the Florida Public Service Commission (FPSC).

TABLE 4-5

UTILITY BOARD OF THE CITY OF KEY WEST

Historical Revenues and Expenses [1]

Ln. No.	Description	<i>Fiscal Year Ending September 30</i>				
		2002	2003	2004	2005	2006
Revenues						
1	Retail Sales from Base Rates	\$58,830,688	\$60,566,314	\$61,589,566	\$60,954,878	\$59,750,375
2	Fuel and Purchased Power Adjustment	5,624,742	9,892,463	16,695,062	19,451,323	34,217,993
3	Total Retail Sales Revenues	64,455,430	70,458,777	78,284,628	80,406,201	93,968,368
4	Other Operating Revenues	2,202,083	2,535,303	3,054,810	3,072,535	3,231,697
5	Total Operating Revenues	66,657,513	72,994,080	81,339,438	83,478,736	97,200,065
6	Other Income	1,876,454	995,706	1,040,145	1,486,514	3,302,844
7	Total Revenues	68,533,967	73,989,786	82,379,583	84,965,250	100,502,909
8	Transfer from (to) Rate Stabilization Fund	2,330,599	(617,148)	(1,020)	235,272	(1,000,535)
9	Total Available Revenues	70,864,566	73,372,638	82,378,563	85,200,522	99,502,374
Operating Expenses [2]						
10	Production Expenses - Diesel	\$779,761	\$916,557	\$887,371	\$1,074,167	\$1,482,077
11	Purchased Power	34,230,472	41,311,655	44,523,179	49,287,046	59,946,424
12	Transmission	3,485,983	3,711,111	3,298,491	3,646,679	3,539,845
13	Distribution	3,075,612	2,832,211	3,250,018	3,017,736	3,366,439
14	Customer Accounts and Collection	985,698	1,015,116	1,085,522	1,280,590	1,243,322
15	Administrative and General	8,460,644	8,757,455	10,004,675	11,540,112	11,452,519
16	Taxes Other Than Income Taxes	1,677,934	1,855,303	2,021,223	2,127,074	2,467,955
17	Interest Expense [3]	74,700	31,537	29,345	112,332	194,275
18	Total Operating Expenses	52,770,804	60,430,945	65,099,824	72,085,736	83,692,856
19	Net Revenues Available for Coverage [4]	18,093,762	12,941,693	17,278,739	13,114,786	15,809,518
20	Current Debt Service on Outstanding Bonds	8,493,242	8,508,320	8,506,395	8,509,645	8,451,538
21	Debt Coverage Ratio [5]	2.13	1.52	2.03	1.54	1.87

[1] All values from the Audited Financial Statements for the fiscal year ended September 30, 2006 unless otherwise stated.

[2] Operating expenses shown exclude net depreciation expense, as reported in the Audit, which is non-cash in nature and does not affect the flow of funds.

[3] Includes interest paid to customers for interest on customer deposits and expense of capital lease obligation from the Audit.

[4] Net Revenues Available for Coverage include Total Available Revenues less Total Operating Expenses Payable from Total Available Revenues.

[5] Coverage is determined as Net Revenues Available for Coverage divided by Current Debt Service Payable from Net Revenues Available for Coverage.

Section 5

Maintenance of Properties



Maintenance of Properties

General

The Consulting Engineer conducted interviews with the Director of Generation, Maintenance Leader, Environmental/Safety Officer, and several other staff members involved in the operation and maintenance of the generating facilities and the transmission and distribution facilities, and conducted general field observations of certain of those facilities in September 2006. Such observations involved visual, above ground examination of these facilities in certain accessible areas. These examinations are believed to be adequate for the Consulting Engineer to comment on the general level of maintenance of the generating, and transmission and distribution facilities, and were not in sufficient depth or detail to reveal conditions with respect to safety, the technical adequacy of any design, the internal physical condition of the facilities, or to conformance with agreements, codes, permits, rules, or regulations with any party having jurisdiction with respect to the ownership, construction, operation, or maintenance of the facilities.

In order to assure that its electric generating facilities are prudently operated and managed over the years, KEYS has had independent third parties periodically assess and review its generating facilities and management practices in the electric generation department. Since 2002, four such inspections, assessments and reviews have been conducted. Each report identifies areas of concern and provides recommendations that are centered around improving the organizational, procedural and communications systems in the KEYS generating department. The most recent review was conducted in August 2006 by FMPA. The recommendations included in the most recent review have been accepted by KEYS management and KEYS management has developed a plan to implement the recommendations that include changes in procedures and personnel.

Generation Department

Organization and Management

The Generation Department, which is responsible for the generation facilities, consists of a total of thirty-eight (38) employees. This is an increase from the eighteen (18) employees which were in this department as of September 30, 2002. The personnel in this department are based at the Stock Island Generating Facility, as is the day-to-day management of the generating facilities.

Currently, the following staff are responsible for this day-to-day management:

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Acting Superintendent of GenerationJames Barry
Acting Generation Supervisor.....Eddie Garcia

The Generation Department has developed plans and procedures to define functions which are essential to the department's operation. These include: Hazard Communication Program, Confined Space Entry Procedure, Energy Control Program, Oil Spill Management Plan, Black Start, and Emergency Action Plan. In addition, the department maintains a volume of material safety data sheets, and the entire utility operates in accordance with *Hurricane/Storm Procedures*. The procedures included in these documents relate to such issues as actions to take in storm situations, employee training, equipment lockout and tag out procedures, and procedures for managing contractors on site. In addition, operating manuals provide basic plant operating information and are available in the Stock Island Generating Facility control room. At the same location are operations' memoranda which cover topics ranging from human resources issues to technical operational matters.

The utility maintains, on a company-wide basis, training records for each employee documenting training received. That data provides evidence of compliance with Occupational Safety and Health Act-mandated training.

The Generation Department has implemented a preventive maintenance system, called IMPULSE™ which was purchased from Maintenance Systems and Services, Reading, PA.* IMPULSE provides a real-time listing of preventive maintenance tasks which are assigned to appropriate maintenance personnel for implementation. Completed tasks are recorded in the system to provide a continual maintenance history for each item of equipment. Corrective maintenance is logged daily, and work tickets for both corrective and preventive maintenance tasks are issued and tracked by IMPULSE. The system, which is accessible via computers in the Generation Department, also generates monthly reports of the number of preventive maintenance tasks completed. The system as described and demonstrated to the Consulting Engineer appears to be a useful tool in keeping the generating facilities in good operating condition. However, Maintenance personnel indicated that the lack of time has prevented making more complete use of the features offered by IMPULSE.

The Generation Department creates monthly, quarterly, and annual reports to management providing, for each plant, the hours of operation, kWh generated, fuel consumption, number of starts, and heat rate. In addition, kWh generated by each unit is reported. These reports provide data which the Consulting Engineer believes to be useful to management in evaluating the Generation Department's operations.

The department also produces a monthly report of unit outages, including duration, type, and reason, as well as a report providing plant availability. Reliability and availability data provided by the utility for the 2002-2006 period is summarized here,

* This system was implemented after encountering problems with the system that was being used in 1997.

along with relevant data from the North American Electric Reliability Council's ("NERC") database for the closest 5-year period, 2001-2005:

Unit or Plant	Equivalent <u>Availability Factor</u>		<u>Forced Outage Factor</u>	
	Utility Board	NERC	Utility Board	NERC
Combustion Turbine	83.8%	92.3%	13.5%	3.4%
Medium Speed Diesels	92.9%	94.9%	3.5%	2.1%
Peaking Diesels	96.9%	94.9%	2.2%	2.1%

This summary indicates that the combustion turbine's availability is below that of other combustion turbines of similar size in the U.S., and that its forced outages are above those of other U.S. units of similar size and fuel. The summary also shows that the utility's peaking (high speed) diesels have better availability and similar forced outage factors compared to other units in the national database, while the utility's medium- speed diesels have availability and forced outage factors similar to units in the national database. The Consulting Engineer recommends that appropriate NERC data be included in monthly reports along with the data it now contains on the utility's units, in order to provide a benchmark. This will provide the Generation Department with a continual measurement of its effectiveness in maintaining and operating its facilities.

There is a signed Operations and Maintenance agreement for the FMPA owned combustion turbine units, which includes specific procedures for each unit. KEYS performs all maintenance after approval by the operating committee.

Stock Island Steam Unit

The Stock Island Steam Unit operated until mid-1995. In 1997, the Steam Turbine Generator at the Ralph Garcia Steam Plant was converted to a Synchronous Condenser. The steam turbine was removed and the generator was outfitted with a hydraulic motor to spin the generator up to synchronous speed and close into the system. The Synchronous Condenser automatically adjusts the voltage on the 69 kV system. For each var that the unit produces, it allows the Utility Board to import one MW through the Tie Line.

Combustion Turbine

The Consulting Engineer visited this unit during September 2006, viewing the overall facility and the equipment in each compartment. The unit appeared to be in good condition in terms of the enclosure's exterior appearance, and the external condition of the combustion turbine, generator, exciter, and auxiliary equipment. The area

Section 5

surrounding the combustion turbine unit was found to be clean and well maintained, consistent with good utility industry practice.

Two factors which provide indications of the internal condition of the combustion turbine, and the manner in which it has been maintained and operated, are equivalent availability factor and forced outage factor. For the period 2002-2006, the relevant data are shown below:

Year	Equivalent Availability Factor	Forced Outage Factor
2002	99.4%	0.1%
2003	79.1%	16.7%
2004	82.8%	12.2%
2005	82.6%	16.2%
2006	75.9%	22.1%

Based on the physical review of the plant and records, it is concluded that the level of maintenance is consistent with accepted utility practice. However, there are indications from the reliability and availability data that these units are performing somewhat lower than normal industry levels for U.S. utilities.

Peaking Diesel Units

The Utility Board's peaking diesel installations include three units at the Stock Island Generating Facility. The units have been maintained as necessary during the five year period since the 2001 Quinquennial Report, resulting in the following aggregate equivalent availability factors and forced outage factors:

Year	Equivalent Availability Factor	Forced Outage Factor
2002	95.7%	0.4%
2003	99.4%	0.4%
2004	99.8%	0.1%
2005	98.4%	1.6%
2006	91.0%	8.4%

Based on the physical review of the plant and records, it is concluded that the level of maintenance is consistent with accepted utility practice and there are indications from the reliability and availability data that the peaking diesel units are performing equal to, or better than similar units in the national database

The Consulting Engineer visited the Stock Island Plant in September 2006, and viewed each unit's enclosure, as well as the exterior of fuel storage tanks. It was found that all units are being maintained in a clean and professional manner. Engine enclosures showed signs of rust, which is common to the environment of the Florida Keys. Much of this deterioration had been repaired and repainted or will be repaired under a continuous program directed at all generating units. Site conditions were clean, free of obvious oil leaks, and generally in good condition. It was concluded that the peaking diesels are being maintained in accordance with good utility industry practice.

Medium Speed Diesels

The aggregate equivalent availability factors and forced outage factors for the 2002-2006 period for the medium speed diesels are shown below:

Year	Equivalent Availability Factor	Forced Outage Factor
2002	91.4%	0.2%
2003	76.4%	16.0%
2004	99.3%	0.7%
2005	98.5%	0.6%
2006	99.0%	0.0%

The Consulting Engineer visited these units during September 2006 and found the installation to be in good external condition, based on the limited amount of time spent observing the units and reviewing records. It is concluded that these units are being maintained in a manner consistent with good utility industry practice.

Transmission and Distribution Department

Organization and Management

The Transmission and Distribution Department consists of thirty-six (36) employees who are responsible for operation and maintenance of the utility's transmission, substation and distribution facilities. Currently, the following staff are responsible for day-to-day management:

Director of Transmission and Distribution .. David Price
T&D Substation Supervisor/Engineer Wayne Davila and Dave Gerstenkorn
T&D Line Supervisors Russell Free and Thomas Grassi

The Utility Board has in place a *Hurricane/Storm Procedures* guide which specifies actions to be taken, and responsibilities for such actions, in preparation for storms,

during such events, and afterwards for repairs and for emergency situations. This document, which is updated annually, also provides guidance for obtaining assistance outside of the Key West area, and for black-start of generating plants. While this document is particularly relevant to the Transmission and Distribution Department, it includes the roles of all of the utility's staff in the event of major storms.

The Transmission and Distribution Department provides management with monthly, quarterly, and annual reports of its operations. These summarize maintenance actions, status of projects, and reliability issues.

Transmission and Distribution Facilities and Equipment

A site visit to the Electric System was made in September 2006 to view transmission and distribution facilities and discuss the Electric System operation and maintenance practices. The following is a summary of observations based on that site visit.

Transmission Lines – KEYS performs visual and Infrared Thermography inspections of the transmission lines annually, and makes repairs as necessary. On September 12-13, 2006 the firm observed no evidence of cracking of concrete in onshore concrete poles. However, on offshore concrete poles, it was apparent that cracks had been repaired. KEYS has an ongoing program to inspect and repair its concrete poles every five years. The firm observed no evidence of damaged insulators or other hardware.

Substations – KEYS conducts visual inspection of substations once per month, at the same time that batteries are tested, and performs annual Infrared Thermography inspections. Very little evidence of oil seepage from transformers was observed. KEYS indicated that the staff monitors transformers and oil circuit breakers very closely for oil leaks and promptly addresses any incidents before they escalate to become major issues. There is evidence of minor corrosion, and a few pieces of equipment will soon be due for repainting; however, no major repairs are required. The substation yards are generally kept clean, and free of debris and weeds.

Power Transformers - In addition to visual and infrared inspection, maintenance includes electrical testing once every five years and gas in oil analysis annually, with oil reclamation if needed. KEYS maintains a record of when transformers were last tested and when the transformers are next due for testing. Minor oil seepage was observed on several substation transformers primarily from radiator gaskets, radiator drain valves and tap change linkage boxes. KEYS indicated that it is aware of the oil seepages and is planning outages as necessary to correct them.

Power Circuit Breakers –In addition to the visual and infrared inspections of power circuit breakers performed by Keys staff, the oil is sampled annually in oil circuit breakers, and contact closure timing and other testing is performed periodically. Testing of circuit breakers is included in the scope of work for the transformer testing contract and records are maintained in the reports prepared by the contractor. No evidence of oil seepage was noted by the firm during the site visit. There are still several 69 kV and 138 kV oil circuit breakers that remain in the system and KEYS plans to replace these with SF₆ breakers within the next five years.

Protection and Control Systems - It is the practice of KEYS to test relays once every two years. KEYS utilizes a program of replacing older electro-mechanical relays with microprocessor-based relays which have self-diagnosis features and do not need to be tested. The relay change out program is complete at all substations except the Stock Island and Kennedy Drive Substations. These are scheduled for completion by 2008.

Distribution System - KEYS performs visual and Infrared Thermography inspections of the distribution system annually, and makes repairs as necessary. In 2006, KEYS completed a program to convert all of the 4.16 kV circuits to 13.8 kV.

Much of the distribution system is older wood pole construction. KEYS has a pole inventory as part of its Automated Mapping and Facilities Management Geographic Information System that it has used to identify older poles and KEYS has replaced some of the old wood poles with concrete poles in the City of Key West. Several concrete distribution poles were observed as evidence of this ongoing program. In addition, KEYS has issued a request for proposals for the provision of services to thoroughly inspect 100 percent of the wooden poles on the system during 2006/2007. As poles are changed out, KEYS plans to upgrade the design of the affected circuits to the "hardened" wind standards of up to 150 mph. No evidence of damaged insulators or other damaged hardware and no evidence of oil leaking from distribution transformers was observed.

These measures to improve reliability have made a significant impact on the reliability of KEYS over the past five years. The following table below shows the System Average Interruption Duration Index (SAIDI) for the past five years. The SAIDI is a standard utility performance metric that indicates the average amount of time a customer experiences an outage during the year. The national average for SAIDI for distribution is about 120 minutes, or about 2 hours, a year as reported by the Edison Electric Institute ("EEI").

<u>Year</u>	<u>SAIDI (Minutes)</u>
2002	72
2003	47
2004	29
2005	81*
2006	85*

* Hurricanes resulted in extended temporary interruptions of service, which are not included above.

As exhibited in the table, KEYS customers have experienced a significant improvement in reliability of electric service in the past five years as compared to previous years, and outages are well below the national averages.

Based on the site visit made in September 2006, it is concluded that the transmission and distribution facilities are being maintained in a manner consistent with standard utility industry practice. However, no observation and review of design and construction practices, clearances, or other National Electric Safety Code Requirements was undertaken.

Section 6

Capital Improvements



Capital Improvements

Capital Improvements

As part of its budgeting process, each year the Utility Board develops and approves a capital budget for the upcoming fiscal year which generally conforms to its multi-year financial plan. Major capital improvements to the System that occurred during the five year period or are currently budgeted include the following.

Production Facilities

In fiscal year 2002, the Utility Board rebuilt the high speed diesel unit No. 2, completed an overhaul of the Stock Island medium speed diesel unit No. 1, and installed the Mark 5 Turbine Controls. In fiscal year 2003, renovations were made to the fuel dock and the Stock Island high speed diesels, and the Stock Island deck was resurfaced. The Stock Island medium speed diesels and the combustion turbine unit No. 1 casing were rebuilt during fiscal year 2004. During fiscal year 2006, a major repair of combustion turbine unit No. 1 was completed and the new FMPA owned combustion turbine unit No. 4 was installed.

Transmission Facilities

During fiscal year 2002, the pole foundation repairs and substation improvements were completed on the tie line, along with improvements to transmission disconnects. In fiscal year 2005, static wire replacement, insulator project and transmission relay upgrades were completed. Transmission pole foundation repairs were made and additional transmission disconnects were installed in fiscal year 2006. In addition, the following transmission facility improvements were made during the past five years:

- Reinsulation of 138kV line with polymer insulators
- Utilization of Synchronous Condenser for system stability
- Installation of new parallel 138kV Line 9 (Big Coppitt – Stock Island)
- Replacement of old relays on transmission line at US1, Big Pine and Big Coppitt Substations
- Repair of 35 pole foundation problems in FKEC area
- Installation of additional 10MVAR capacitor bank at Big Coppitt Substation
- Replacement of 138kV gang switch at Big Pine and Big Coppitt Substations
- Replacement of 30 year old 69kV oil breakers

- Replacement of aging shield wire in FKEC area
- Replacement of arrestors at Tavernier Substation
- Replacement of insulators north of Tavernier Substation
- Replacement of aging 138kV potential transformer

Distribution Facilities

During the five fiscal years ended September 30, 2006, approximately 700 wooden distribution poles were replaced with concrete poles. In addition, the following distribution facility improvements were made during the past five years:

- Installation of second transformer at KWD Substation
- Installation of new microprocessor type distribution protective relays
- Installation of new Cudjoe Key Substation
- Installation of additional feeder at Big Coppitt Substation
- Acquisition of new tree trimming equipment
- Installation of additional lightning arrestors
- Corrections of lines and field based on infrared survey
- Installation of four field reclosers
- Installation of additional capacitor banks to improve voltage quality
- Removal of open wires and back easements
- Installation of vibration dampers on two back-bone feeders
- Replaced overloaded transformers
- Installation of additional transformer secondary/primary arrestors
- Replacement at Kennedy Drive Substation bus 13.8kV gear
- Replacement of 30 year old 13.8kV substation breakers
- Conversion of 4.14kV to 13.8kV feeders

General Plant Facilities

During fiscal year 2004, modifications were made to the service building and renovations to the first floor of the administrative office building were completed. In fiscal year 2005, the Utility Board completed its computer conversion project and in fiscal year 2006, the field communications were upgraded. During the five years ended September 30, 2006, the Utility Board replaced a number of its vehicles and made improvements to its general plant facilities.

Future Projects

Planned capital improvements for the production facilities include: overhauling the combustion turbine unit No. 1, the medium speed diesels and the high speed diesels, installing three fin fan coolers, replacing the medium and high speed diesel turbochargers, installing a new hydrogen generator, repairing the exhaust stack at the medium speed diesels, replacing the medium speed diesel fuel lines, replacing the oil boom for fuel deliveries, upgrading emissions monitoring equipment, upgrading military production facilities, and upgrading controls and software.

Planned transmission facilities projects include:

- Foundation repairs to over water poles
- Replacement of 69kV gang switches
- Replacement of down guy insulator rods
- Replacement of corroded static brackets and wire
- Repair of spalling at pole tops
- Replacement of 138kV breakers
- Installment of fiber inter-connection
- Installation of 69kV relay upgrade at KDS and SIP

Planned capital improvements for the distribution system include:

- Replacement of four 138kV breakers at Stock Island Plant
- Installation of new distribution poles as part of the Storm Hardening Program
- Installation of a new substation at Stock Island
- Replacement of old substation feeder cables
- Replacement of transformers at KDS and US1
- Installation of additional feeders

Plans for general plant improvements include: replacing vehicles, upgrading facilities and information technologies and developing the Cudjoe Key and Stock Island properties.

Planned Capital Improvements Funding

In October 2006, the Utility Board issued \$42,000,000 of Electric System Refunding and Capital Improvement Revenue Bonds, Series 2006 and approximately \$37,500,000 was deposited into the Project Fund.

Capital improvements are also funded through budgeted transfers from the Revenue Fund to the Renewal and Replacement Fund. In addition, certain types of capital projects may be funded by monies in the Capital Improvements Fund and monies are also available from the Emergency Reserve Fund under certain circumstances.