

MINUTES FROM A REGULAR MEETING OF THE UTILITY BOARD OF THE CITY OF KEY WEST, FLORIDA, HELD AT 5:00 P.M. ON JANUARY 9, 2008 AT THE WILLIAM ARNOLD SERVICE BUILDING LOCATED AT 1001 JAMES STREET, KEY WEST, FLORIDA

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

AGENDA ITEM #4 – PRESENTATION AND RECOGNITION

Chairman Hernandez stated that the Board is pleased to recognize KEYS employees who have completed training programs. He proceeded to recognize the following employees.

- Daniel Delice – Completion of 1st Year Meter Program
- Cassie Blanco – Completion of 2nd Year Meter Program
- Albert Fernandez – Completion of Apprentice Lineman Training Program
- George Castellon – Completion of Apprentice Lineman Training Program

Item #5a – Power Supply Report

Mr. Dale Finigan reported that since the last Utility Board meeting there have been 14 feeder reclosures, 3 feeder outages and 2 transmission outages. The first transmission outage occurred on Christmas Day. It lasted approximately 50 minutes. It was determined that the outage was a result of fireworks in the area north of Sugarloaf Key. The location was confirmed by the relay location feature and eyewitnesses.

The second Transmission outage occurred today at 4:00 pm. Preliminary information indicates that it was a result of relay testing being done in the Big Pine Substation. This outage lasted approximately 10 minutes.

Item #5b – Generation Report

Mr. Garcia reported that the medium speed diesel overhaul has been completed. There are still some punch list items and Hugo Motor Services will be on site Monday, January 14th to complete. Last Friday a conference call was held with GE and KEYS was informed that 1st & 2nd stage buckets are being inspected, the rotor blades have been removed, disassembled and blasting is in progress. The 1st & 2nd stage nozzle inspection is complete and KEYS is waiting for a report.

Mr. Garcia continued to report that the synchronous condenser was taken out of service due to severe MVAR swing. Staff believes the problem is with the exciter and GE is working on the problem today. With the exception of the synchronous condenser and CT #2 all units are available. There are 97 megawatts available.

FMPA

Mrs. Tejeda informed the Board that she met with Mr. Roger Fontes to discuss some of KEYS' concerns regarding the cost associated with the Fort Pierce Utilities Authority Operating Agreement. Mr. Fontes is working on a written response to KEYS' questions and a conference call will be scheduled next week to discuss in greater detail. The Operating Agreement is scheduled for a vote at the FMPA Executive Committee at the end of January.

Mr. Hernandez asked if KEYS' letter will be sent to all the membership.

Mrs. Tejeda responded that she requested that it be submitted to all FMPA Executive Committee voting members.

Mr. Batty commented that he read Mrs. Tejeda's letter to FMPA and he thought it was excellent. He asked if Mr. Fontes has given a preliminary feeling as to why they were so generous.

Mr. Tejeda responded that Mr. Fontes has said that there are situational differences between KEYS' site and the Treasure Coast site which require them to be more generous. He said that at Treasure Coast it is 100% FMPA and at KEYS' site it is 50% FMPA's and 50% KEYS'. Therefore, FMPA negotiated to have better controls over FPUA.

Mrs. Tejeda continued to say that during Mr. Fontes' visit they also discussed the solar panels project. FMPA opened bids on Monday responding to their RFP for solar panels. Mr. Fontes was not present at the bid opening. His

staff informed him that there were several favorable responses. Mrs. Tejeda commented that she expressed that KEYS' would like to be the first city to receive solar panels.

Mrs. Tejeda's final report under Informational Items was to inform the Board that KEYS was honored with First Place in the Commercial Category for its float in the Holiday Parade. She congratulated the many employees who participated to make it a successful event.

AGENDA ITEM #6 CONSENT AGENDA

- a) Approve Minutes – Regular Meeting – December 12, 2007
- b) Approve Disbursements Report
- c) Approve Purchase of Four (4) Vehicles and Declare KEYS' Vehicles #26, #40 #43 & #81 as "Surplus"
- d) Award Bid for Purchase of Mechanical and Programmable Meters – Bid #18-08
- e) Declare Inventory & Non-Inventory Items as "Surplus"
- f) Declare Miscellaneous Wire and Metal as "Surplus"

Motion was made by Mr. Batty and seconded by Ms. Clark to approve the Consent Agenda. The motion was unanimous.

AGENDA ITEM #7 – ACTION ITEMS

Agenda Item #7a – Modify the Terms by which the General Manager & CEO may Consummate the Sale of SO2 Emission Allowances

Mrs. Tejeda stated that at the last Utility Board meeting it was discussed that her authority to sell SO2 Credits expired on December 31, 2007. At this time staff is asking for the continued authority for the General Manager & CEO to sell the units from 2010-2014 if the prices get to \$300 or better. In addition staff is requesting authority to sell the remaining credits for vintage years 2000-2009. Their prices have increased to an average of \$500 per credit. The revenues will be approximately \$70,000 and staff feels that this is the right time to sell as prices will likely start going down.

Mrs. Tejeda stated that the recommendation is for the Board to allow the General Manager & CEO to consummate the sale of SO2 Emissions for vintage years 2000-2014 and extend the deadline to December 31, 2008 and also to allow the ability to sell the vintage years 2000-2009.

Motion was made by Mr. Bradford and seconded by Mr. Batty to modify the Terms by which the General Manager & CEO may Consummate the Sale of SO2 Emission Allowances.

The motion passed unanimously.

Agenda Item #7b – Discuss Possible Changes to the Enabling Act Regarding Section 3 “Membership of Utility Board”

Mrs. Tejada stated that she would like to walk the Board through the research that staff has done, explain what has been learned and then turn over to the Board for discussion on how they wish to proceed.

The first item presented to the Board was a memorandum from Henry Hamilton, Chairman of KEYS Advisory Committee. The Advisory Committee spoke with customers that they represent prior to making a recommendation, this process took approximately two month. Mrs. Tejada proceeded to read the memorandum that follows:

MEMORANDUM

DATE: November 7, 2007
TO: Utility Board Members
FROM: Henry Hamilton, Chairman of KEYS Advisory Committee
SUBJECT: Utility Board Expansion

The Advisory Committee has been asked to provide the Utility Board with an opinion regarding the issue of expanding the Utility Board’s electoral base beyond the voters of the City of Key West to include the voters of the Keys Energy Services service territory. The Advisory Committee believes the current representation with Utility Board members elected by the City of Key West voter along with the Advisory Committee well serves the ratepayers of Key West.

The Committee arrived at this conclusion by weighing the pros and cons of expanding the Utility Board. The Committee members first shared their views with one another:

Pros

Every customer has a vote, which is the most powerful way to participate

Cons

All Customers receive same rates
All Customers receive same responsiveness
All customers enjoy level customer service
Utility Board members listen/respond to all customers regardless of their ability to vote
The Advisory Committee provides an added layer of input to the Utility Board on issues outside City limits
The Advisory Committee provides ombudsman services to the Utility Board

After discussion, the Committee members decided to query individuals in the districts they represent by asking: Are you, as a Keys Energy Services customer, satisfied with your representation? The results were overall against expansion with comments such as:

- We're content with the current set up of Utility Board and Advisory Committee
- We don't understand what the Utility Board does
- We are satisfied with the Utility Board but on principal would like to vote
- Would like to vote but why incur additional costs with more members
- Advisory Committee provides a voice especially with the monthly ad in the "Loafer"

Mr. Nathan Eden, Board Attorney then proceeded to review the following letter with the Board.

EDEN & NEVIUS, P.L.

DATE: JANUARY 3, 2008

TO: LYNNE TEJEDA, GENERAL MANAGER & C.E.O., KEYS ENERGY SERVICES

FROM: NATHAN E. EDEN, ESQ.

You have asked to provide my opinion concerning reconstitution of the board presently known as Utility Board of the City of Key West Florida. Specifically I believe the issue is whether board members may be elected from areas and/or while residing outside the City of Key West.

In answering several tenets must be kept in mind. First, all municipalities in Florida exist at the pleasure of the Florida legislature. This is to say for the most part the legislature has plenary power over municipalities. I feel accordingly that the legislature has such power over Utility Board of the City of Key West, Florida, such Board being the creation of the Florida legislature by Special Act. Therefore the legislature is free to change the composition, manner of election and the very existence of said board.

The present Utility Board's participation and respective duties in such actions is a more complicated and involved issue. I believe the starting point for such discussion is to define just whom Board members represent as a matter of law. The present board is elected by the citizens of the city of Key West, Florida charged with the duty of operating the electric system and business originally purchased by the City in 1943 from a private concern. Accordingly and a board member's duty must lie with the electorate by whom they were chosen. I can foresee an ethical dilemma arising if a board member was put to the task of deciding an issue that had the potential to be contrary to the best

interest of his constituents in any manner.

This issue for a board member raises any number of ethical problems. I have always opined that the Utility Board in essence governs the operation and ownership of the system for the citizens of Key West, Florida. Therefore any act by the board which could be construed as being contrary to such a fiduciary responsibility would be improper. I believe that taking action which costs the system additional monies which did not have a direct and beneficial effect might be considered improper.

It would be my opinion that any material change in the composition or manner of selection of said Utility Board should rightfully involve the owners of beneficial title of the System, viz, the citizens of the City of Key West, Florida. In this manner board members might avoid any potential ethical pitfalls.

I have endeavored to keep this as concise and clear as possible. Clearly a full discussion of these issues would entail substantially more. If such further discussion is desired, please advise and I will respond appropriately.

Mr. Eden stated that he would try to answer any questions the Board might have.

Mrs. Tejeda stated that the third issue regarding this matter is how other Public Power Utilities operate. There are other utilities throughout the country that are similar to Keys Energy. A review of the American Public Power Association's most recent Governance Survey which was completed in 2006 for the period ending 2005, specifically asked "Does the governing body include a representative for customers outside of the municipal boundaries?" According to the report 65% municipally-owned utilities serve customers outside of their boundaries but only a small number of the utilities (7%) include a representative for the outside customers on their governing body. Mrs. Tejeda stated that it is not a wide spread practice to have an outside representative.

Mrs. Tejeda continued to say that another point of discussion would be the appropriateness of the Utility Board to spearhead this change. The Board is charged with overseeing the utility and its operation. Historically, the Board has requested changes to the Enabling Act that directly affect the operational efficiency of the Utility.

Mrs. Tejeda stated that the final point of discussion looked at by staff is the estimated annual cost of a Utility Board member which is \$28,232 that includes salary, pension contributions, Medicare tax, health insurance and estimated travel expenses. If the Utility Board remains at five members there will be no additional costs. If the Utility Board were to expand by two members the estimated increase in expenses would be \$56,464.

Mr. Eden stated that there would also be some incremental costs added

for the election of the additional members.

A motion was made by Mr. Bradford and seconded by Mr. Symroski to discuss the Possible Changes to the Enabling Act Regarding Section 3 "Membership of Utility Board." The roll was called and the following vote was recorded:

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

Ms. Clark commented that the information presented to the Board was very thorough.

Mr. Symroski referred to a comment made by Mr. Eden that the Board members are trustees of a business purchased by the City in 1943. Mr. Symroski stated that it is a very important aspect but it leads him to ask a question and that is "to what extent does a business improve if the Board is drawn from the entire customer base?" The Board should be looking at what is best for the business and always look at what is best for the customer.

Mr. Symroski expressed that he feels the Board should not spearhead the change. He feels the Board should accept what the people choose and continue to explore the ramifications in terms of the costs. The Board needs to explore the various options.

Mr. Batty expressed his feeling that since the Board is elected by the people; it is the Board's duty to make the choice. Mr. Batty stated that his concern is that the City of Key West bought and paid for this utility back in 1943. The City of Key West does benefit in a financial manner from the City ownership of this utility, such as in-kind services and money paid annually to the City. If the Board is opened up to seven members then that brings up another issue and that is Monroe County sharing in the in-kind services. Mr. Batty expressed that he was not going to weigh in on whether the Board should be expanded or not.

Mr. Eden stated that a person sitting on the Board who is not a taxpayer or citizen of the City of Key West may find themselves in a conflict when it came time to pay adjustments to the City of Key West for its equity/ownership in actual dollars or in-kind services.

At this time Chairman Hernandez asked the Board what direction they would like to take on the issue.

Mrs. Tejeda stated that the reason this issue is being discussed today is because last year when the Board made requests to change the Enabling Act, Representative Saunders heard from a constituent expressing that he was interested in having the change to the Board entertained. At that time Representative Saunders agreed delaying entertaining the idea in the best interest of moving forward with the other changes being requested to the Enabling Act. However, Representative Saunders requested that the issue be addressed in the upcoming year. Mrs. Tejeda expressed that Representative Saunders is seeking a response from the Utility Board that the issue has been addressed and how they wish to proceed.

Mrs. Tejeda suggested sending a letter to Representative Saunders regarding the issue to be appropriate.

Mr. Batty stated that the Board should express that it is not within their purview to make a recommendation to change the membership of the Utility Board to include the Lower Keys.

At this time Mr. Bradford stated that a vote by the Board on whether or not to make a recommendation to expand the Board is not an agenda item. He asked if the Board can vote on the item without it being on the agenda.

Chairman Hernandez stated that a motion was made to discuss the possible changes to the Enabling Act Regarding Section 3 Membership of Utility Board and that has been done. He stated that the next step is a decision on whether the Board wants to move forward with an agenda item or possibly hold Public Hearings.

Mr. Batty asked if an item on whether the Board wants to proceed with the expansion of the Board can be added to the agenda with a unanimous vote.

Mr. Eden responded that it can be added to the agenda.

Mr. Symroski expressed that he likes the idea of the Board responding to Representative Saunders with a formal letter. He stated that the letter should state that the Board should not spearhead the changes to the membership of the Utility Board and perhaps elaborate on some of the issues that Representative Saunders should be aware of.

Mrs. Tejeda suggested attaching all of the documentation in the Board meeting packets to the letter sent to Representative Saunders.

Mr. Batty expressed that perhaps this issue needs to be discussed with

the City of Key West to let them know the direction in which the Utility Board is headed.

Mr. Eden stated the he sees ethical problems with this Board taking any position on this matter. He stated that he does not feel that there are any duties outlined in the Enabling Act that allow or require a change to the composition of the Utility Board. Whoever has the idea of this change has come to the wrong gate post they need to talk to the beneficial owners of the system, The City of Key West, Florida not this Board.

At this time Mr. Tom Milone requested to address the Board on the issue. Mr. Milone stated that he has read the memorandum from the Advisory Committee and Mr. Eden. He stated that regarding the Advisory Committees comments he feels that greater citizen participation outweighs the cons. He stated that the opportunity exists through a referendum, since it is a presidential election year, to find out how the public feels regarding the expansion of the Utility Board.

Mr. Milone also stated that he feels that the additional costs that could be incurred are not significant and he does not consider it a waste of taxpayer's money. It will give people the opportunity to vote on the issue. He stated that he feels that the expansion of the Utility Board is the right thing to do; there are 42% of the rate payers residing outside the City limits who are affected by what the utility does. He continued to say that this 42% should have a voice and does not feel the Advisory Committee is sufficient.

Mr. Milone thanked KEYS staff for all the research that has been done on this matter and also thanked the Board for their consideration on the issue.

Chairman Hernandez asked Mr. Milone if he has approached City government on this matter.

Mr. Milone responded that he had informally spoken with Commissioner Gibson about the issue.

Mr. Eden stated that the Utility Board does not have the authority to ask for an issue to be placed as a referendum, the City of Key West does.

Chairman Hernandez commented that the utility is owned by the City of Key West and that is the key argument.

Mr. Symroski stated that he felt there were other reasons the residents of the Lower Keys would be interested in having a say beyond the Advisory Committee due to the amount of major policy decisions that the Utility Board

makes such as on issues regarding global warming. To what extent does the customer base get to participate in those issues differently from a voter? He stated that he wonders how the voting would be different if there was a member seated on the Utility Board from Big Pine Key since KEYS is thinking of getting rid of the animal shelter. He stated that the Utility Board should not spearhead the expansion issue the City needs to be involved in this.

Mr. Batty expressed to Mr. Symroski that he did not think it was correct for him to say that the Board is looking at getting rid of the animal shelter on Big Pine. It is an inflammatory statement and probably the farthest thing from the truth. The lease is up with the County, KEYS is willing to sit down and talk to them.

Mr. Batty stated that the inevitable is being delayed, which is a vote. Representative Saunders is entitled to a no decision from the Board on the issue. Mr. Batty made a motion to place on the agenda to write a letter to Representative Saunders indicating that the Utility Board has decided not to pursue any changes at this time seconded by Mr. Bradford. The roll was called and the following vote was recorded:

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

At this time Mr. Batty made a motion to write a letter to Representative Saunders stating that the Utility Board after research, lengthy discussion and public input has determined that it is not within their purview or authority to make a recommendation to change the membership of the Utility Board to include the Lower Keys, the motion was seconded by Mr. Bradford.

Mrs. Tejada asked the Board if the letter should be from Chairman Hernandez or the General Manager & CEO.

It was the consensus of the Board that the letter should be from Chairman Hernandez. The roll was called and the following vote was recorded:

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

Mr. Eden recommended that the City of Key West be copied on the letter to Representative Saunders.

Mr. Batty suggested that Mrs. Tejada schedule a meeting with the City Manager to inform him of the letter that is being sent to Representative Saunders.

Agenda Item #7c – Approve Hiring a Temporary Employee in the Facilities Section

Mrs. Tejada stated that staff is seeking approval to hire a temporary employee in the Facilities Section. The temporary employee will fill in for an employee who has been with the utility for twenty six years and has a considerable amount of leave on the books and is expected to be out for an extended period. The employee has exceeded the twelve weeks allowed by the Family Medical Leave Act. Staff looks at every case differently and this employee is a long-term employee. His position requires very little training which will make it easy to hire a temporary employee to fill in during his absence.

Mrs. Tejada stated that staff believes it is in the best interest of the Facilities Section to continue to carry the employee who is out on leave and to hire a temporary to fill the void this absence has created. Staff is recommending hiring a temporary employee for a period not-to-exceed six months or for the period until the full time employee is able to return to work, whichever occurs first.

Motion was made by Mr. Batty and seconded by Mr. Symroski to hire a temporary employee in the Facilities Section for a period not-to-exceed six months or for the period until the full time employee is able to return to work, whichever occurs first. The motion passed unanimously.

Agenda Item #7d – Approve Emergency Purchase on one set of 1st Stage Shrouds for Combustion Turbine #2 Overhaul

Mrs. Tejada stated that staff is in the middle of an overhaul to combustion turbine unit #2 which is an FMPA unit. When the contract was approved with GE staff informed the Board that during the inspection it was likely that additional work would be identified which would result in additional costs. She stated that was indeed the case. When staff contacted GE they informed that if they were to sell KEYS the stages to be replaced it would be in excess of one million dollars and there would be a 14-16 week time lead before the items were available. The lead time and price were unacceptable and staff went out for quotes to find out if other companies could offer the same. One company called Powmat, Ltd

quoted \$19,660 and they had a lead time of 14 weeks. Turbine Services, Ltd. Quoted \$26,664 with estimated shipping and has the items in stock and can ship right away. Staff recommends awarding to Turbine Services, Ltd. who are \$7,000 more than Powmat, Ltd. There are risks of incurring costs from GE if there are delays. GE can delay the project with no expense to KEYS. However, if KEYS delays the project there are increased costs. The units need to be put back in service well in advance of hurricane season.

Mrs. Tejada stated that staff was concerned with the difference in quotes between GE and the other companies and presented all the information to the GE project manager and he confirmed that the parts that staff is purchasing from Turbine Services, Ltd. are the same parts that would be purchased from GE.

Mrs. Tejada stated that staff is recommending the Emergency Purchase to Turbine Services, Ltd. for one set of 1st Stage Shrouds for Combustion Turbine #2 Overhaul.

Motion was made by Ms. Clark and seconded by Mr. Batty to approve the Emergency Purchase to Turbine Services, Ltd. for one set of 1st Stage Shrouds for Combustion Turbine #2 Overhaul.

Chairman Hernandez asked if the expenditure will be reimbursed by FMPA.

Mrs. Tejada responded that it would be.

The motion passed unanimously.

OTHER BUSINESS

There was no other business to come before the Board.

ADJOURNMENT

Motion was made by Ms. Clark and seconded by Mr. Symroski to adjourn the Regular Utility Board meeting of January 9, 2008. The meeting was adjourned at 6:20 P.M.

Lou Hernandez, Utility Board Chairman

Lynne E. Tejada, General Manager & CEO

sp