

DISPATCH

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Utilities Decide—Buy or Build?

Growing Demand for Power Prompts Supply Decisions

Self-Build Proposal Selected To Fill 2011 Capacity Needs

THE need for additional power generation resources is growing both in Florida and beyond. To add new capacity, a utility must decide whether to purchase power from others or construct its own power plant. Answering the question, “To build or not to build?” is a complex decision. In states like Florida, a tight wholesale power market is presenting fewer options to buy, making the decision even more challenging.

Fortunately, joint action helps utilities of all sizes gain access to the best options. Working together, municipal utilities can assess all possibilities, conduct rigorous analyses, and decide how best to provide reliable power at the lowest possible price.

Market Conditions

Increased demand, regulatory uncertainty and a shrinking pool of acceptable power plant sites have tightened the power market. In the 1990s, a utility requesting power supply proposals might receive several bids from investor-owned utilities, perhaps even some fuel-diverse, base-load power options.

Today, power purchases seem to be less available, are typically offered by independent power producers, and are mostly natural gas-fueled, peaking capacity.

Factors to Consider

A utility must evaluate many factors when deciding whether to buy or build. Ultimately, it depends on two factors: providing a reliable power supply at the lowest possible cost.

Several key factors influence which option

fulfills that goal best. For example, municipal utilities’ unique ability to fund projects with tax-exempt bonds can be a significant cost advantage on capital-intensive projects.

Also, both options offer unique risks and rewards. Owned resources provide greater operational control, but greater asset risk. On the other hand, power purchases offer counter party risk and, typically, shorter-term power contracts.

Finally, a utility must honestly evaluate its ability to accomplish a project on its own. Staffing requirements for a project are an essential part of managing assets and risks. Fortunately, joint action gives municipal utilities the resources to accomplish certain projects that would be unwise or impossible to accomplish alone.

The Decision-Making Process

The All-Requirements Project’s power supply decisions all derive from the project’s Integrated Resource Plan. The plan projects what type of capacity is needed, in what quantity, in what time period.

Once the capacity need is clearly defined, FMPA can test the marketplace with a request for power supply proposals. If FMPA can meet the need through a self-build option, that option is also investigated. FMPA staff prepares a detailed analysis of all options including all types of cost and risk factors. FMPA members review these factors and choose the option that best meets the All-Requirements Project’s two-part mission.

Buy vs. Build: Two Case Studies

When a power purchase is offered by a well-respected company at an attractive price in the proper size and specifications, the choice to buy can be a win-win-win for the generator, the utility and electric customers.

A good example of this was All-



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by James C. Welsh

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We Have the Power Now

By James C. Welsh, P.E.
Chairman, FMPA Board of Directors



James C. Welsh

Fellow All-Requirements members, we have the power now.

Yes, we have the power now, but it wasn't always this way.

Look what we cities, coming together and acting jointly in this agency, are doing. The construction of a new natural gas-fired combined-cycle power plant highlighted in this issue is but one example. We are currently undertaking numerous other projects.

Our general manager, who the members hired, and his staff are assisting us in accomplishing numerous projects throughout the state, per our direction to him and the staff. (See the summary of Roger Fontes' 2007 State of the Agency speech on page 3 of this issue). Roger and our staff are following the policy directions that we have given to them.

I know that my city, Kissimmee, acting alone could never be involved in all these things. We just do not have the manpower and resources to do this. I doubt if many municipal electric cities would. However, by working together, we municipal electric cities throughout the state of Florida now have the power to do this.

Also we all can benefit from great econo-

mies of scale that larger projects provide. In the past, individual cities did not have the financial critical mass necessary to undertake large projects. Now working jointly, we do.

In the past, many cities depended on one investor-owned utility to supply all their bulk power requirements. Now, all these cities working together depend on themselves. We have control of our own destiny.

At times we mistakenly have the notion that the Florida Municipal Power Agency is some outside entity. We sometimes think this outside entity is trying to sell us something. Nothing could be further from the reality of our situation. Joined together as fellow municipal electric cities, we work and plan together for our mutual benefit. We have hired a general manager and a staff to carry out our policy directions.

We should all be very pleased and proud of the depth of knowledge and professionalism of the staff that we have developed. They are very capable, willing and loyal to the objectives we establish and set out for them.

It is both a privilege and a pleasure to work with all my fellow municipal electric utilities from throughout the state of Florida to develop the lowest cost and highest level of reliability for our bulk power supply. We have the power – now! ♦

Buy or Build?

Decisions *continued from page 1*

Requirements members' decision in 2006 to purchase power from Southern Company, one of the nation's largest producers of electricity. Under this agreement, Southern Company's new unit at the Oleander Plant in Cocoa, Fla., will provide cost-effective peaking capacity for a 20-year term starting December 2007.

On the other hand, being a project maker, capable of meeting its customers' needs, has been a tremendous help to FMPA's members in today's tight wholesale power market.

In late-2006, FMPA solicited proposals to fill a significant capacity need in 2011. FMPA received only three responses to its request for power supply proposals. None were able to provide both the amount of power required and firm transmission rights to deliver the power to FMPA's member cities.

FMPA's staff and members performed a detailed review of the purchase options and the alternative of constructing its own combined-cycle natural gas-fired plant. All-Requirements members concluded in March that building a plant was most cost-effective.

The new plant is expected to feature the same technology and design as FMPA's Treasure Coast Energy Center Unit 1, a 300 megawatt plant currently under construction in St. Lucie County, Fla. A location for the new facility has not yet been selected.

"In a tightening power market, the resources and strength that utilities gain from working together has never been more important," said Roger Fontes, FMPA's General Manager and CEO. "Whether our members are buying or building, joint action provides the best options and decision-making environment, all of which serves our customers well." ♦



FMPA CEO Updates Members On the State of FMPA in 2007

FMPA Members Are Prepared For the Path that Lies Ahead

Editor's note: Roger Fontes recently spoke to the governing boards of several FMPA members. The text below is a condensed version of his remarks.

THIS is a challenging time in the electric utility industry, with many new changes impacting how we do business. Utilities must adapt to these changes if they are to be successful in their ever-important mission of providing reliable, affordable power to the public.

In recent years, increasingly high and volatile prices for fuel, especially natural gas, have raised power costs and increased the volatility of electric rates. These changes have impacted all utilities to varying degrees, especially in Florida, where most of the state's utilities are heavily invested in natural gas-fired generation.

Changing environmental regulations add uncertainty to the process of developing new power generators, especially new base-load units fueled by coal or nuclear power. At the same time, our communities' growing power demands make the need for those new generators more urgent than ever.

The Map: All-Requirements' IRP

To navigate the challenging path ahead, utilities must map out a sound plan for success. Fortunately, All-Requirements owners approved a long-term power supply plan last year, known as the Integrated Resource Plan or IRP. The plan gives us important information about what lies ahead. For instance, it projects All-Requirements owners' power needs will increase nearly 30% by 2021.

The plan also provides recommendations: 1) Diversify All-Requirements' generation fuel mix to provide cost savings and rate stabilization for customers, and 2) Maximize economies of scale by developing partnerships with like-minded utilities.

In addition to the IRP, All-Requirements owners are developing a business and strategic plan for the project, in conjunction with the fiscal 2007 budgeting process. Our focus on system planning and strategic implementation has certainly sharpened in recent years, and I believe that focus will be a

great advantage as we move forward on the road to the future.

Driving Defensively: Risk Management

As we travel that road, we are always driving defensively, seeking to balance risk with opportunity. For example, FMPA's energy risk management program cushions our customers from the impact of fuel price volatility. The program uses a prudent, yet sophisticated combination of financial hedges to limit the possible range of energy rates for our customers.

The success of FMPA's risk management programs has captured attention in the industry. FMPA was recently named "Municipal Risk Manager of the Year" by Risk Magazine. But these honors only motivate us to continue honing our knowledge and skill in this area. FMPA continues to foster a risk management culture throughout all divisions of the Agency and to integrate risk management into our business decisions. We are also increasing our focus on asset management to ensure we are balancing risk management with the opportunity to increase our income or reduce costs.

Milestones: Modernizing Power Resources

Perhaps the best news is that our strategies are beginning to produce solid results. We passed several milestones in the past year, as we have moved to modernize our fleet of power generation resources.

For several years now, FMPA has undergone a transformation from being a "project taker," dependent on other utilities for power supply opportunities, to a "project maker," a utility capable of taking the lead to do what is right for its customers.

FMPA's Project Development Department completed its first power generation project last year on time, on budget and meeting all project goals for safety and performance.

Construction of the Treasure Coast Energy Center is progressing well. The combustion turbine generator was delivered in February. The steam turbine was delivered June 4. These milestones are especially significant because Treasure Coast is the Agency's first wholly-owned plant site. The project is on schedule to enter service in May 2008.

We are also looking forward to milestones yet to come. For example, consistent with a recommendation from the 2006 Integrated Resource Plan, we are developing a new natural gas-fueled power plant to begin

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FMPA in Your City



Would your local leaders like a briefing from FMPA about the state of the Agency or about a specific project or issue?

It is a strategic priority for FMPA to build closer relationships with leaders in our member communities, and we would appreciate the opportunity to meet with them.

Contact Sue Utley toll free at (888) 774-7606 or at sue.utley@fmpa.com to schedule a visit by FMPA's General Manager.

State of the Agency

Speech *continued from page 3*

operating in 2011 at a yet-to-be-determined site. (See this issue's cover story for details).

Our proposed clean coal power plant, the Taylor Energy Center, is also making strides, having formally begun the state licensing process in May. For this project, we are partnering with some of the state's largest community-owned utilities: JEA, Tallahassee and Reedy Creek Improvement District. We continue to aggressively seek partnerships for large-scale base-load power projects that offer opportunities to reduce our reliance on natural gas as a fuel source, and we are also pursuing new renewable energy resources.

As this portfolio of power generation assets grows, our increased focus on asset management will help us get the most out of the resources we have now and in the future.

When changes and challenges struck our industry, FMPA's members responded by agreeing upon a destination and developing the map, the skills and the resources to get there. Today those efforts are paying off, and FMPA owners are ready for the path ahead.

We are truly on our way. ♦



The Dispatch Via E-Mail

The FMPA Dispatch is available electronically. Sign up to receive an Adobe PDF version of the newsletter by sending an e-mail to diane.burel@fmpa.com

A Newsletter of the Florida Municipal Power Agency THE FMPA DISPATCH

The FMPA Dispatch is published by the Florida Municipal Power Agency. FMPA is a wholesale power company owned by municipal electric utilities. FMPA provides economies of scale in power generation and related services to support community-owned electric utilities.

FMPA's members include Alachua, Bartow, Blountstown, Bushnell, Chattahoochee, Clewiston, Fort Meade, Fort Pierce, Gainesville, Green Cove Springs, Havana, Homestead, Jacksonville Beach, Key West, Kissimmee, Lake Worth, Lakeland, Leesburg, Moore Haven, Mount Dora, New Smyrna Beach, Newberry, Ocala, Orlando, Quincy, St. Cloud, Starke, Vero Beach, Wauchula and Williston.

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