

# DISPATCH

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## Munis Form Gas Supply Agency

### Electric, Gas Utilities Initiate Innovative Fuel Partnership

### Joint Action Agency Expects To Stabilize, Lower Fuel Costs

**D**O ELECTRIC and natural gas utilities have the makings of partners? Havana Town Manager Susan Freiden believed they did, so she initiated a meeting between her wholesale electric supplier, FMPA, and her wholesale natural gas supplier, Municipal Gas Authority of Georgia (the Gas Authority).

FMPA General Manager and CEO Roger Fontes met with Freiden in 2001, shortly after he joined the Agency. Natural gas costs, which began rapidly increasing in late 2000, were on everyone's minds. As they talked, Freiden told Fontes how the Gas Authority, like FMPA, was working hard to keep customers' rates down. She suggested that by working together, perhaps both utilities could accomplish more.

Fontes took her advice and met with the Gas Authority's CEO Arthur Corbin. The two executives quickly found common ground.

"The rising cost of natural gas has a major impact on households and businesses nationwide," said Fontes. "So, although we come from different utilities and different states, Arthur and I had the same concern for our customers."

That shared concern inspired the two organizations to develop a unique joint action solution—a first-of-its-kind natural gas supply agency that would stabilize and lower the cost of natural gas by making long-term, wholesale fuel acquisitions.

### Taking Control of Fuel Costs

In recent years, natural gas prices have risen dramatically—doubling and even

tripling in short periods of time. The price of natural gas in the United States, which historically moved in a fairly narrow price range around approximately \$2 per million British thermal units (mmBtu), has demonstrated significant volatility in recent years and traded near \$8 per mmBtu in recent months.

"Volatility in the natural gas market suddenly and unexpectedly takes millions of dollars out of the pockets of consumers," said Fontes, "Municipal utilities need a way to take control of their fuel costs for long-term stability and savings."

The new fuel supply agency called Public Gas Partners (PGP), will protect a portion of members' natural gas supply from the volatility of the natural gas market by purchasing fuel directly from its source in the form of producing natural gas reserves or other long-term supplies. Pooling PGP members' natural gas needs will create additional discounts and economies of scale.

### Forming the Partnership

FMPA and the Gas Authority quickly found other utilities that shared their vision. More than a dozen utilities participated in the initial phases of developing this new agency. Seven utilities signed participation agreements to become the founding members of PGP in November 2004. Together, PGP's members serve almost 200 cities and counties in five states, including more than 30 in Florida.

Each member utility appoints a representative to serve on the PGP Board of Directors. The Board elects officers annually. For 2005, they elected Fontes as Chairman of the Board, James H. Smith of Southeast Alabama Gas District as Vice Chairman and Katrina Vaughan of Florida Gas Utility as Secretary/Treasurer. The Board also appointed Susan Reeves, Chief Financial

*Please see PGP, page 3*

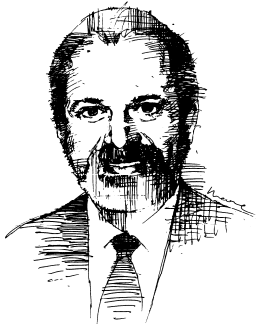


#### Founding Members:

- Florida Gas Utility
- Florida Municipal Power Agency
- Lower Alabama Gas District
- Municipal Gas Authority of Georgia
- Patriots Energy Group
- Southeast Alabama Gas District
- Tennessee Energy Acquisition Corporation

# The Power of Teamwork

By Roger A. Fontes  
General Manager and CEO



Roger Fontes

It probably goes without saying that FMPA's unspoken middle name is "Joint Action Agency." Joint action is our mission. Joint action is our passion. Quite simply, joint action is the reason we exist. This article is about how we accomplish the complex activities that produce successful joint action.

I do not believe it is an oversimplification to state that "teamwork" is the method used to implement joint action at FMPA. Teamwork takes on many forms. In this issue of *The FMPA Dispatch* you will find specific examples of teamwork in FMPA's daily activities. These examples are, in reality, just the tip of the iceberg. The culture at FMPA embraces and implements teamwork at all levels. This philosophy begins at the "top"—among FMPA's policy Board and governing Committees.

In recent years, FMPA's Board of Directors and Executive Committee have established several standing committees to promote teamwork, consultation and cooperation among FMPA's governing Board members. Those committees include the Finance Advisory Committee, Member Services Advisory Committee and Risk Oversight Committee. I would like to focus on the Risk Oversight Committee (ROC) because its membership and authority is derived through a direct delegation from the Board of Directors and because the ROC is "teamed-up" with the FMPA staff's Risk Management Group (RMG).

Risk management, at least as implemented through a formal program, is a relatively recent initiative at FMPA. FMPA's risk management program is a prime example of how teamwork can accomplish joint action objectives. Starting from scratch allowed FMPA to fashion and implement a risk management program tailored to our needs and organizational culture. Our Board of Directors considered and adopted a written Risk Management Policy. Embedded in that policy was the creation of the ROC and RMG—including the defined relationship between both new entities.

The ROC and RMG form an extended "team" of Board members and senior FMPA managers. Together, they can effectively tackle the many tasks of risk management and fuel hedging. You can read more about

the activities of the ROC/RMG team on page three of this newsletter. Here, I would like to specifically acknowledge their excellent performance, which is evidenced by FMPA's "gas hedge book" mark-to-market running \$36 million to the good.

Another powerful example of the extensive FMPA "teamwork" concept occurs when the management and staff of FMPA members challenge FMPA to expand its capabilities. A particularly notable example is how the development of Public Gas Partners was initiated by a member's suggestion (see "Munis Form Gas Supply Agency" on page one). Thanks to that idea and the teamwork of PGP's members, we can all be somewhat more optimistic that soon the All-Requirements Project's natural gas supply will have a meaningful percentage of below-market priced fuel.

Finally, I have seen teamwork at its best at FMPA as we unite the combined time, talents and expertise of FMPA and its members to achieve the Agency's most pressing strategic goals. One example is the ongoing collaborative effort at FMPA and Keys Energy Services to obtain environmental permits for Stock Island Unit 4, an efficient new combustion turbine planned to serve the All-Requirements Project. The small but hardworking team assigned to this project has been very effective both in gathering the detailed, technical information required for permit applications and in communicating face-to-face with regulators. As a result, the permitting effort is progressing well, and I am optimistic about the outcome.

Effective teamwork among our staff, our member cities and our fellow municipal utilities is key to FMPA's success as a joint action agency. As this extended "team" grows, changes and faces new challenges, we must constantly reinforce the attitudes and values that support our teamwork culture. We must communicate with our teammates honestly and openly. We must act in a way that builds trust within our teams. We must recognize that the greatest benefits of teamwork are achieved by valuing different perspectives, collaborating creatively and embracing innovative solutions that meet the needs of everyone—especially the communities we all serve. These shared values are the fuel that drives the power of teamwork. ♦



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## FMPA Members, Staff Develop A “Risk Management Culture” To Aid Future Decision-Making

**I**N FMPA’S early days, the Agency’s founding members had the foresight to identify and offset a significant risk factor. At a time when many joint action agencies were content to invest in a single large base-load generating unit, FMPA developed partnerships and a project-oriented business structure so its members could receive power from multiple units and multiple fuel types. The resulting diverse generation mix has served FMPA well.

A quarter-century later, the risks and opportunities of today’s energy business have become even more complex and quick-changing. Today’s FMPA members are also forward-thinking, and they have managed the complexities and changes by systematically building a risk management culture at FMPA.

What exactly is a risk management culture? “An organization with a risk management culture is aware of the risks that are embedded in all of its decisions,” said FMPA

Assistant General Manager, CFO and Risk Manager Mark Larson. “Before making a decision, the organization actively evaluates the various types of risks associated with potential actions and balances the trade-off between risk exposure and cost.”

Teamwork is at the heart of the risk management culture. A single person has a limited perspective to see the many aspects of risk behind a particular course of action, while a group, with its broad range of perspectives, can provide a more complete analysis. That is why FMPA’s Board of Directors created a pair of diverse, interdisciplinary teams to take charge of the Agency’s risk management activities.

The Board of Director’s Risk Oversight Committee (ROC) acts as a liaison between the Board and the staff. The ROC informs the Board about risks in the Agency’s business, and informs staff of the Board’s risk tolerance. The staff’s Risk Management Group (RMG) is an interdepartmental team that implements the risk management policy.

Both the ROC and RMG ultimately aim to empower FMPA staff and members to make wise, well-informed decisions on how to deal

*Please see **Managing Risk**, page 4*

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## Munis Form Fuel Agency

**PGP** *continued from page 1*

Officer of the Gas Authority, as President of PGP. Under the leadership of the Board and Reeves, the Gas Authority staff will perform PGP’s daily operations.

### First Project

Since November, PGP has been working on its first project, called Gas Supply Pool #1, a diverse portfolio of non-operated interests in producing gas reserves. PGP expects to target an initial supply portfolio capable of producing approximately 60,000 mmBtu per day to be acquired during the next three years. FMPA plans to receive 15,000 mmBtu per day from this portfolio.

This initial project is focused on working and royalty interests in proven, producing low-risk gas reserves. Having an experienced operation and development team will allow PGP members to minimize the risk of the project while enjoying the benefits of fuel supply ownership. The project may purchase any assets in the U.S. or Canada that are consistent with PGP’s acquisition criteria.

### Bright Future

PGP’s future efforts could include a variety of gas-related projects. PGP was structured as a project-oriented agency to give each member the flexibility to participate in the programs that best meet their needs. Potential projects could include pipelines, gathering systems, storage projects, liquefied natural gas purchases and other concepts.

FMPA projects that approximately 20% of its daily gas needs eventually will be supplied by the new partnership, yielding significant cost savings below current market prices. FMPA’s participation in Gas Supply Pool #1 alone is estimated to produce savings of \$22 million over the first 10 years of the project.

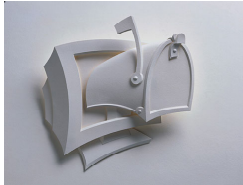
“At this time, we have put a small portion of our natural gas requirements into PGP. As PGP builds the high quality portfolio of gas reserves we expect in the next several years, FMPA and the other members will likely increase the amount of their long-term requirements met by PGP,” said Fontes. “We are very excited about what this new partnership can do for each of the individual members and, more importantly, what it can do collectively for all of our customers.” ♦

## Risk Management Culture Managing Risk *continued from page 3*

with risk in the Agency's business. The teams are setting up practices, processes and tools to integrate risk assessment into the way FMPA does its everyday business.

Perhaps the most significant achievement of FMPA's risk management program so far has been the growth of a multidimensional perspective on power supply decisions. The Agency has developed a deeper understanding of how uncertain factors like fuel costs and generation mix can strongly influence rates. When a decision is considered, FMPA now avoids focusing on a single point, such as the "likely" result of each option, and instead compares the range of possible outcomes and probabilities. By making decisions this way, FMPA members understand and acknowledge the risks inherent in the decision.

In the short-term, this type of decision-making enables FMPA's members to be prepared for change and, thus, better prepared to react to it. In the long-term, the risk management culture will lead to prudent, balanced strategic decisions that will benefit ratepayers in the years to come. ♦



### 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](mailto:diane.burel@fmpa.com)



The FMPA Dispatch is published by the Florida Municipal Power Agency. FMPA is a wholesale power company owned by 29 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, 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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