FRIDAY-10:00 A.M. JULY 18, 2008 SPECIAL MEETING

The City Council of the City of Elizabeth City held a Special City Council meeting on the above date and time in the City Council Chambers of the Municipal Administration Building with Mayor S. S. Atkinson presiding. Council members in attendance were: J. M. Baker, L. A. Hummer, R. E. King, B. S. Meggs, J. A. Stimatz and V. C. Watts. Councilmen D. B. Evans and E. K. Rivers were absent. Staff members attending were: City Manager R. C. Olson, City Clerk D. S. Pierce-Tamplen, Deputy City Clerk V. D. White, Finance Director S. E. Blanchard, Utilities Superintendent K. F. Clow and Customer Service Superintendent B. Arnold.

Mayor Atkinson opened the meeting by welcoming those in attendance. He gave the invocation after which he led the Pledge of Allegiance to the Flag of the United States of America.

1} <u>PRESENTATION BY KEN RABER:</u>

Mayor Atkinson called upon Ken Raber, Senior Vice President, ElectriCities Services/North Carolina Eastern Municipal Power Agency for his presentation.

Mr. Raber presented a power point presentation that included the following: Elizabeth City is a member of the North Carolina Eastern Municipal Power Agency, made up of 32 member cities/towns in eastern North Carolina. NCEMPA owns a portion of our power plants, including Harris Nuclear Plant, Brunswick 1 and 2, Mayo Coal Plant and Roxboro Coal Plant.

He continued with that this is his 30-year career in public power and utility industry one of the most difficult times he has seen for the electric utility business, but not just the utility business but for the industry in general. We have some real challenges that we are facing that we need to really deal with. We are no longer looking at North Carolina, United States and that economy. We are now looking at a world economy. Be it the internet or whatever you want to talk about is that we now have a world economy with China and India and the size that they are growing at depending on what you read anywhere between 8-10%. The size of those economies is a tremendous drain on the world's resources. You are looking at power plants. They are building coal power plants and they are bringing them on line one plant a week. That has a lot to do with our fuel supplies but it has a lot to do with everything that we do from construction materials, metals and wire. Copper thefts go through the roof. We have even had people to try and steal live transformers or power poles. That does not go well as a general rule. We see a lot of things changing in people's attitudes. We are going to have to deal with this not just now but also in the future. He wants to spend a little time talking about what are these issues and how do they directly affect North Carolina Eastern Municipal Power Agency and the City of Elizabeth City. NCEMPA is your wholesale supplier. Everything that he will be talking about is at the wholesale level. The decision for the retail is the City Council position.

He wanted to start with Financial/Credit Market Issues. The sub-prime mortgage crisis affected bond insurers. For the longest time, bond insurers only insured municipal bonds. In the housing boom they decided that they wanted to branch into some of these sub-prime mortgages which are what they began to insure. What they started to do is as those sub-prime mortgages have started to fail which means they went from Triple A to almost junk bonds. How does that affect us? Back in 2004 we made a decision. We were facing and you may remember in 2005 we had three separate rate increases over nine months totaling 16%. Part of our mitigation strategies was we were looking at the interest market and we moved about 17% or $400 million of our debt into variable rate debt. That was a good decision at the time giving the facts at the time. Once this sub-prime crisis hit and there are a lot of discrepancies of when it actually affected us. He will tell you it hit us in March. We saw something that we have never seen. Municipal debt tax exempt debt was higher than taxable debt. Thankfully that did not last long. Our Board of Directors reacted immediately and asked the staff to immediately take out all of our variable rate debt. He is happy to say that as of May we have closed on that debt because of some timing we will be taking it out over time but we have completely mitigated our exposure. He believes that we reacted very quickly and satisfactory in the outcome.

The second thing is fuel prices. We are 65% nuclear and 35% coal on average. A nuclear cost for generation is about $.02 a KW hour and $.05 to $.06 KW hour is coal. What we are experiencing in coal is dramatic increases in the stock market price. China and India building one coal fired power plant a week or fifty-two a year. The coal has to come from somewhere. We are importing because a lot of the coal that we use is being exported. That is driving the price up. We don't have a lot of reliance on natural gas. Right now it is down in the $12 to $14 range and we are thinking that is actually pretty good. Look at the price of oil and somebody told him it was good news that it was down to about $125 a barrel. That is unacceptable. A few years ago it was $50 a barrel.

Nuclear fuel isn't like coal as it is very complicated. The cost of uranium material is about 25-30 percent of the total costs of nuclear fuel. All other phases of nuclear fuel production have seen more increases however; the cost of raw material has increased significantly. Canada and Australia account for almost half of worldwide uranium mining. Demand is finally exceeding availability. A couple of things have happen; one in the weapon program a lot of the uranium that was in the weapons was fed through the nuclear reactors to the industries. That is gone. Utilities have announced 20 nuclear plants in the United States. If those 20 plants get built the utilities are wrapping up fuel. We stop building plants in 1985. The last nuclear plant in North Carolina was Sharon Harris and it came on line in 1985. Europeans haven't stopped. We are finally at a point that we are seeing uranium demand outstrip supply.

Operational issues. The last plant built in NC was in 1985 and that makes it over 20 years old. While the plants continue to operate efficiently and Progress Energy maintains the facilities well, their age necessitates an increasing cost to keep them operational and to ensure compliance with new federal standards, including emissions standards. Higher material and labor costs are also contributing to the increased capital and operating and maintenance cost increases. The increased operations and maintenance activities, material and labor costs and capital additions are causing additional increases in NCEMPA expenses. We are going to be looking at investing in our infrastructure.

The last item is transmission. The transmission system carries power from power plants to substations located in cities and towns. We haven't been adding to our transmission system. He talks a lot about California. If you will recall in deregulation they were the leader in deregulation and people were convinced that we would have cheaper electricity. That was what they were promised. They were having blackouts, street lights were out, massive traffic jams and customers couldn't work their cash registers. They found out that they wanted the lights. It is critical for NCEMPA to put forward to our cities and our participants a reliable and safe power supply program.

He spoke of the stock market coal prices. You don't buy coal on the stock market. The goal is to buy coal under contract. Buying coal under contract in the old days you would have a contract that would go ten to fifteen to twenty years. In this kind of market nobody is signing long term contracts. A year, two years or even three years is becoming unusual. Our rate increase in 2005 we saw coal go from $60-$65 a ton. Transportation of coal went from $8 to $16 a ton. We projected that wouldn't stay, so we projected that cost would go down. In fact during those projections we actually had a rate decrease in 2007. If we knew what we do now we probably wouldn't have done that. What has happened recently is 160% increase in the stock market. As long as coal is available we will be buying it under contract through Progress Energy. Where our concern is when the price gets to this price is it cheaper to send it to China or India than to meet our contracts. This is one of the challenges that we are facing because when you look at this and do long term projections what do you look to determine what our coal cost is going to be, realizing that coal contracts are short in nature right now. That is part of what we are talking about in our proposed rate increase.

When he talked about nuclear fuel it is a little bit more complicated. He discussed what a nuclear fuel cycle looked like. You mined uranium and you buy it by the pound. In the process the first thing that you do is you change that powder into a gas. That is the UF_6. The enrichment facilities are all managed by the Department of Energy. If we are seeing increases in our electric rates now, the Department of Energy is going to be seeing increases in their enrichment process. We are starting to project what those costs are going to be because uranium unlike coal you change one third of that every 18-24 months. One third of the core is about $80 million. You are seeing 25% of the cost going up and then the enrichment going up.

Next are the Uranium stock prices: He has toured coal mines and he has gone out and seen what a coal mine looks like, what mountain top mining is and these are special people. He toured two miles inside of a mountain when you are really just living on that light on the front of your helmet and you hear a piece of coal falling from the ceiling. It will question whether or not you made the right decision to go in there. He has seen how they mine. It is an incredible process and coal miners are incredible people. Fabricating fuel is very interesting process. After it goes to this process it is a bunch of pellets about the size of the tip of your finger. It comes in boxes. They ship the boxes in. They have to be careful remember these pellets are enriched to 2 or 3%. You can't stack a box. They are then put in special fuel rods that are about the size of the tip of your finger-14' long and they push the fuel pellets in. They make that into an assembly. The next process is the spent nuclear. It goes through the process and then it goes into spent fuel. Our plans at this point are to store it on site. It is a very expensive process.

The difference between fuel and coal is nuclear fuel is tied to a stock market price. It is indexed. We do see some price swings as it shows up. The good news is it is settling down at about $56.00 a pound. We were looking at $8-$10 a pound and it went up to over $100 a pound. We think it is good news that it is settling in at $56 a pound. Where it is going to settle out depends on how many reactors are built and what the process looks like. Keep in mind that we have a little longer process and a little more flexibility in negotiations. Unlike coal every 45 days your coal pile is going to turn over. Nuclear fuel is every 18 to 24 months you are going to refuel a core.

When we go through Process Energy's numbers for our fuel at our plants as well as their system's average production costs we have to look at their assumptions. How much is this going to cost in our projections. You are going to challenge him on his assumptions. The challenge is when we sit down and we look at somebody else's assumptions we need to know which curve they are using. He discussed the recent increases around us. Progress Energy, Duke, Dominion Virginia, Jacksonville and Florida have all proposed fuel adjustment increases. It is not much consolation but we are not alone.

When we do rate projections we are challenge by the participants in our Rate Committee which is a technical review. We talk a lot about how safe are our projections. Are we conservative or are we just banking money. How close are we cutting our numbers? Are we putting extra money in there? Our goal is to maintain the cost increase at the lowest possible rate. He presented a graph showing the PEC Monthly Supplemental Energy Rate verses NCEMPA All Requirements Energy Rate. We own 70% of your generation. You buy 30% from Progress Energy under contract. We buy it from them on a calculation of system average price so it is based on what it costs them to generate it. Our incremental costs or what we are charging Elizabeth City is below what Progress Energy is charging the Power Agency. It other words the more we sell, the more we lose. This is not a situation where you are losing money you go get a bigger truck. We have no choice but to make it change to the higher price at which we sell it because we can't continue this. Our reserves are $5 million and $21 million in emergency reserves. Even under these current projections in 2009 50% of the time we will be digging into those emergency reserves. The plan is when we get into 2010 that will improve. If that doesn't happen if we have an unforeseen outage at one of our plants, coal miners strike, railroad strike something can change then he will tell you that we would be at a situation where we will not be able to sustain it because we simply don't carry that much reserves. If we were to continue to run even with what we are seeing now we can't weather that. The Rate Committee has said to come back to us in January and they will look at the rate structure and we want to see what has happened after the summer. Summer is the critical time. We are a summer peaking utility and the majority of our sales are in the second half of the year. We will be back to the Rate Committee to see just what the costs actually are.

One of the appearances that we deal with a lot of city councils, the press and the customers is there is a perception that at the Power Agency it is bought by the Power Agency from Progress Energy, provide a mark-up and sell it to the City of Elizabeth City. That is not a correct process. You are a public power utility. You and thirty-one other participants are a utility. As part of that utility you have ownership in generation, about 15% of five plants. Like any utility that owns plants you have a mortgage. You have to pay a staff to operate them. You have to pay for the fuel to run them. The second part of that is that meets 70% of your needs. We are under a long-termed contract with Progress Energy to 2017 to purchase what we call supplemental energy. In accordance with the price of what Progress Energy pays for their plants. Your total debt is $2.6 billion. Your annual mortgage is in the rate of about $300,000 million a year. It is slightly less than 50% of your total costs. It is about 40% of your total costs. That is your mortgage on the energy that you own. You have undivided interest in every brick and piece of concrete in the plants. You pay what it costs to operate those plants such as the staff, fuel, materials, the inventory, capital additions and transmission. We have to get it from Point A to Point B. Those things are not going to really change each year. We will do whatever we can when the market says refinance to reduce our costs. We review their contracts. Not an accounting review but an engineering review of their contracts. These are very complex complicated contracts that his staff goes through and looks at are we paying what we should pay for the plants. We have seen some savings. We are monitoring these and we are doing everything that we can to control these costs. That is what he and his staff do. We review the supplemental power costs. It takes about $20 million to run the Agency. All of the costs associated with the Agency run about 3%. There is no markup. There is no margin or profit. We have very few options for revenue. We have some periods of time in the spring at two o'clock in the morning where we have the generation out of your plants is more than you need. We sell that back to Progress Energy.

Where do these costs come from and how much of the 14% increase is it and how much per kWh. We are looking at a little over $.01 per kWh basis; 1.12¢ is the total cost of the wholesale increase. Progress Energy system average energy costs is the 30% that you buy from them. Their projects are for the short term that is going up 37%. It is going up more in future years. Changing our debt from variable to fixed, $400,000 million has increased our total debt service percentage from 5.6% to 5.8%. We have eliminated the risk but we have also eliminated any potential benefit. Compared to what our numbers were previously that is a 2% increase of the 14%. The Roxboro coal is the coal to fuel our power plants. Again those coal trains come, we are there, we see them, we see the coal contracts and that is your costs at $12 million or another 2%. Nuclear Fuel is our cost at another $9 million or 1.5%. The transmission is $6 million or .9%. Operation and Maintenance/Capital Additions comes in at $5 million or .8%. And, interest income is $3 million or .06%

Mr. Olson asked Mr. Raber if he would explain the transmission circumstances associated with Elizabeth City.

Mr. Raber said there use to be three power agencies. North Carolina Municipal Power Agency I, II and III. In Power Agency I is 19 cities that are served by Duke. Power Agency II was 11 cities served by Vepco and Power Agency III was 21 cities served by Carolina Power and Light at that time. There was a time when we were negotiating with all three utilities. Agency I closed their deal with Duke, Agency III was closing their deal with CP&L and Agency II was negotiating with at that time Vepco. Negotiations broke down and there was really no opportunity for Vepco cities to join in a project with Vepco. So we consolidated with them into North Carolina Municipal Power Agency Number III and changed the name to North Carolina Eastern Municipal Power Agency. You are part of the Progress Energy control area but that provides some challenges. The Progress Energy control area ends somewhere around Rocky Mount and Greenville. Your transmission lines go first from your generating plants across the Progress Energy system and then second across the Dominion system. You have to pay an extra transmission charge to get power from your plant and the Progress Energy Contracts over to Elizabeth City. It is about 1.5% on your total costs of your rates. We do work with Dominion and you do have a very good contract that we administer with Dominion. It is not a formula base contract but a filed rate contract at the Federal Energy Regulatory Commission. We are very please with it. We have a good relationship with Dominion. It is a good contract and things are working pretty good. Two of the cities built transmission over to Progress Energy Greenville and Washington so there are now nine cities served under Dominion but they are still what we call in the Carolina Power and Light Control area. They control the power coming here.

When you take all the fuel components of our system average energy, the fuel components in the coal plants that you own, the fuel components in the nuclear plants that you own, your fuel costs are roughly 69-70% of this total cost increase. The remaining costs are the debt service, the transmission and the capital additions and interest income. If you want to see where the majority of this increase comes from, it is coming from fuel. And, what we are looking at is we are not projecting as we have in the past that these fuel costs will come down. We are projecting them to go high and stay high. Our concern is have we got enough in there to get us through 2009 without another increase. We are running very close to the edge and we will be following the operation of our plants very closely as well as coal contracts, fuel contracts to make sure what we do every month as we project out four years. What do we see and we will look at our projections. We have been doing this. We set down and we have an internal team and external experts that help us so that every single month we say what does it look like? Have coal contracts changed? Have nuclear contracts changed? What has been the operation of our plants and do we have unplanned outages. Are we above or below where we think our supplemental energy charges should be? We monitor those every single month to make sure we know where we are.

Where are we today? It is a process and we are moving quickly because we saw our costs increasing quickly. The NC Eastern Municipal Power Rate Committee and he knows several of you were there for that meeting on June 27th and it was a unanimous recommendation to increase 14%. They asked us to look at some other increases that will be lower and quite frankly there was no way to survive that. We would be back in a few months with another emergency increase. The process from here is that the Board of Directors will meet July 25th and on July 25th they will review the recommendation of the Rate Committee and implement a rate increase. This is where things change a little bit. You have a Board of Commissioners and Elizabeth City has a seat on the Commission. Rich is your Commissioner. They meet quarterly. Under our process several years back when we had challenges under deregulations we had three separate Boards of Directors. We are public power in North Carolina and we are unified. With three separate Boards of Directors we found ourselves in a very difficult situation to respond to industry issues without first going to all three boards and then getting consensus from all three Boards and it became a long and difficult process. The statutes changes in 1995 to put together an Executive Committee. That Executive Committee is the Board of Directors of ElectriCities. Six directors of ElectriCities are appointed by NC Eastern Municipal Power Agency, six by Agency I and two by wholesale customers of ElectriCities. They oversee the operations of all three agencies. Let's just talk about North Carolina Eastern Municipal Power Agency's Board of Commissions. The Board of Commissioners includes 32 members, 32 participants, 32 seats on the Board. It is a weighted vote. All operations responsibilities of the Board of Commissioners were delegated to the Board of Directors with three exceptions. They were financing, budgets and rates. Those three things require action or concurrence by the Board of Commissioners. The Board of Commissioners will meet July 30th to review and concur on the recommendation of the Rate Committee and the Board of Directors assuming there are not changes. The last thing the Rate Committee has asked us to do is come back as he mentioned before in January and look at the rate structures. Where are we and where do we stand. Where do we stand on pricing and working capital and are we meeting the projections as we had proposed.

He opened the floor up for any questions.

Mayor Pro Tem Baker said you said that we export coal yet we pay to import coal from other countries. Why do we do that? If we could reverse that trend and only export what we don't use in this country would there be a significant savings of dollars and how much would it be if so?

Mr. Raber replied that it is a marketable commodity. They are independent and the mines are independent companies and they are going to sell it where they can get the best price. It doesn't mean that we are sending it to China and then we are importing it from China. We might be importing from South America. You are looking at again a world economy where is it, who will deliver it and who will they deliver it too.

Ms. Baker said so why did coal prices go up so high in 05-07? Is that just supply and demand?

Mr. Raber replied that supply and demand. In 05, 06 & 07 what you saw since we are not building any base load plants, two things are happening? One is they are trying to get more mega watts out of the nuclear plants. The easier place to get more mega watts is coal and coal plants only use to run about 45% of the time. Now they are running about 75% of the time and if you increase or you double your output from your coal plants you are doubling the input of coal. This is a nation wide issue. All the coal plants are running more which means more trains of coal are coming in so you have a supply and demand issue, plus you had Katrina. She didn't help any.

Councilman Stimatz asked if he could give us a very vivid description of the starting and stopping of a nuclear power plant and the costs. Could you do that for our audience because he thinks it is very telling? We have two nuke plants and your projections are based on everything going well, nothing breaks down, there are no Katrina's, etc. Your nuclear example was very good. Could you do that again?

Mr. Raber replied you are part owners of two nuclear plants, 18% of the Brunswick Nuclear Plant, a two unit plant in Southport and 16% of the Harris Nuclear Plant in Wake County. In nuclear plants they are your race cars. They are your work horses. Turn the key and you put the foot to the floor and you expect them to run from the time you close the breaker when you put new fuel in to the time you open the breaker to take the fuel out and replace it. We rely on that. We know that is a pretty optimistic view so we put in there what we call a forced outage rate. We guess or the model makes some assumptions of when these outages will be. What happens is it is wrong. You know it is only a model and you know it is going to be wrong. If a nuclear plant goes off line in the springtime, while you are losing that 2¢ power you can probably crank up a coal plant and replace it with system average energy or a coal plant or something like that. If it runs out in August that is a whole different problem because now your coal plants are already at maximum so you are taking all of that capacity that you need and you are not only increasing your coal plants but you are adding your natural gas. One of the things that he likes to say is that we can't plan when a plant trips. We had some interesting discussions about trips and it is not him going somewhere it is when a plant comes off line. When a nuclear plant goes off line does anyone have any idea how long it takes a nuclear plant to shut down the reaction in a nuclear plant. Well, it takes 3 seconds. That is hot shut down. You can't take heat away right away because things will warp. If a plant is shut down something caused it to shut down. You don't simply walk out and turn the key and turn it back on. The first thing that you have to do is find out what happened. It could be a $50 relay or it could be a $10 million rapid cooling pump. You have to know before you turn that key back on what brought the plant down. The process to start up a plant is you simply don't start it up and put your foot to the floor. You start it up and you are dealing with a nuclear reaction. It starts very slowly, very controlled, tests every period of time and that periods starts at about 24 hours. You not only have all the staff there, the Nuclear Regulatory Commission has an office on site and they are watching. Safety is paramount in a nuclear plant. While we are looking for reliability and looking for the plants to run, safety is paramount.

Mr. Stimatz said that goes back to if you lose a plant for a week in August and you had to supplement with natural gas you are talking about $.13 kwh difference in costs to produce electricity. What does that number look like?

Mr. Raber said that we have had this to happen. We had a duel unit and both units went down and were down for two weeks. It was $7 million because you lose not only the power but you have the operations and maintenance costs and those replacement power costs. Remember Brunswick going down for two weeks in the middle of August is $7 million and he has already said that we only carry $5 million in reserves. That is how close we are cutting things.

Councilwoman L. A. Hummer said that you say there is no markup and no profit but we recently read that Jessie Tilton, the CEO is making quite a bit of money.

Mr. Raber said that he understands that. It was published in the Rocky Mount paper.

Ms. Hummer said that she has had some phone calls on that.

Mr. Raber said let's look at a couple of things. He can't really discuss salaries. The Eastern Agency is a $650 million utility. Managing contracts and managing a power supply program. When you add Agency I and ElectriCities in there we are managing over a billion dollars. We are negotiating power supply to maintain the lowest possible costs with Fortune 500 companies. He wants the best people sitting there and looking after Elizabeth City. We want strong leadership. We want visionary people. We are facing challenges to sit here and assume that we will just do what we always have done and always get what we have always gotten
is unacceptable. We are moving into the future and we have a difficult time and we are going to surround ourselves with the best people in the industry that we can find. He would not consider sending the lowest cost person to negotiate a contract in an open market. He wants someone that understands the market and he wants someone that can when they are sitting down and we bring it to our Board of Directors and back to Elizabeth City he can look you in the eye and say it is the best deal that we had. We put the best people we have on it. All of our salaries, Jessie Tilton's salary are managed by a Consulting Group with

comparable industry to make sure we are competitive so that we can get the best people that we can.
Councilwoman B. S. Meggs asked how his salary compares to some of the other companies.

Mr. Raber said that he was not privy to that. The Board of Directors had a salary study done and they probably know that answer far better than he does but salaries are not something that he can really discuss.

Councilwoman V. C. Watts asked if he could give her once again a brief on the revenues. Explain that for her please.

Mr. Raber said what we call a participant and he apologies as we get into too many buzz words. Our term is there are 32 participants in North Carolina Municipal Power Agency and Elizabeth City is a participant.

Ms. Watts said that she was going toward that if people here in this City and Pasquotank County if they opted to attach to the grid here in our utility department will that benefit the City and she is assuming that it will benefit ElectriCities as far as monetarily in conjunction with ElectriCities. Is that correct?

Mr. Raber replied that is an absolutely correct statement. In the mid 90's the Board of Commissioners and Board of Directors and the Rate Committee at that time asked us to make a change in to our rate structure. We brought a rate structure change back and the way the rates are designed right now at the wholesale level is the majority of the benefit of growth goes to the participants in Elizabeth City. The more you grow the more you benefit. Equally you have the same risk of lost of load. It used to be that the Power Agency would get the benefit and spread that out amongst all the participants and that has since changed. If Elizabeth City grows it is Elizabeth City's benefit.

Ms. Watts said that she is going to reiterate to as well as Elizabeth City/Pasquotank County were to grow with green energy meaning wind turbulence, solar power and putting into the grid that benefits the City as well as ElectriCities. It benefits the City primarily because monetarily we kind of get a little bit off of our bill so to speak.

Mr. Raber said that you are in a whole different area of what happens when there is generation coming in. We have to look at all of those things and find out how to do it. We are in a new world right now. We are working with Progress Energy on how to recognize these things. We certainly don't want to stifle renewables. Whether are not we can get that benefit directly to Elizabeth City may be another question. We are working on it and we know that we have that challenge. One of the things that he really wants emphasized as we go through this is there isn't one solution. It is not going to be renewable it is going to be a total energy solution and we have to change the way we think about energy.

Mr. Stimatz said that this is a very complex situation. It looks like you were going along fairly predictably for years and all of a sudden the floor has dropped out. Everything has gone haywire. Coal has gone haywire, uranium has gone haywire, gas has gone crazy, oil and natural gas are all off the charts for all kinds of reasons. Compounding that is the situation in the financial markets. The other thing that has been thrown at us is the renewable energy targets. That is another thing that you have to throw into the mix now. What was a complex issue has just become exasperated greatly.

Mr. Raber said don't stop there because there are some things still in Congress that they are looking at changing and the global climate change. The Lieberman/Warner Bill that is out there and we don't think as it stands is a good idea. Lieberman/Warner Bill puts in a carbon tax. Dominion and Progress Energy are talking about rate increases in the 35-40% range because we are primarily nuclear. If that Bill were to go through we would be looking at another 20% increase in rates. We don't find that acceptable. We have met with Senator Burr and he agrees with that and for some reason Senator Dole doesn't. We are working and we are lobbying if we understand global climate change and we are in support of cleaning up the climate and reducing green house gases but given the energy situation that we have got and the pressure on people in Northeastern North Carolina particular we don't see how we can fathom another 20% increase legislated by Congress.

Mr. Olson said that he has passed out a copy of our energy bill to members of the City Council. He would like for you to briefly go over this and while you are going over it he will explain some of staff's philosophy especially when it comes to the demand charges.

Mr. Raber replied that there are two concepts in energy. First is the demand and second is energy. Demand is bricks and mortar. What do you have to bill to keep the lights on? Our first block is demand. That is what it costs, the cost of the debt, the cost of the plants it is your fixed costs. There is a rate associated with that and you have several blocks in that. The first and second blocks are fixed blocks because that is your debt. We know that is not going to change significantly. The third block is the demand charge. We pay a demand charge to Progress Energy. We pay that demand charge to Progress Energy one hour a month. One hour a month makes up about half of you electric bill. We have a demand side management program where that one hour of a month controls the Power Agency costs. We send the same price signal to Elizabeth City. That is one hour a month you can control your costs in reduced costs. From the Power

Agency level that is a saving of about $40 million which Elizabeth City participates in and has an excellent program in so the first part of your bill is the demand side.

Mr. Olson said that last year we saved $1.2 million because of our demand side management practices. When you look at that third block and it is only $1.250 per kWh. Part of our mission here at the City is to get as many kw's we can in that cheap power block and that is when he keeps saying that we need load growth. What we need to do is we need to maximize the amount of energy we sell under that demand and that drops down to the energy charges.

Mr. Raber said that your energy charges are your variable charges. The cost of staff, fuel and everything after you built the plant that you want to recover because those numbers change. The more energy you use, more fuel you use variable costs and those kinds of things. The energy rider charge is where we had these last couple of increases. If you look at the energy charge and the demand charge your incremental charge which means the next kilowatt hour or the next kilowatt that you sell is less than your average costs.

Mr. Olson said what that means is the more you grow at a lower cost the more your average cost goes down. That is why load growth is good. Our customers benefit with load growth because we don't have to increase the rates. We don't pass along the rate increases. The Council realizes that we have a fund balance of roughly $10.5 million before we absorbed that last rate increase. The reason that we had that was strictly due to load growth in the system.

Mr. Raber said that the extra charges are deliver surcharges and your metering costs. We have a telemetry system here that takes the load out of Elizabeth City instantaneously and sends it back to the Progress Energy Control Center. Progress Energy is always sending him the exact amount of energy that Elizabeth City needs across the Dominion transmission lines. We have to meter that and obviously we have to charge for that. We explain kvar as something that resists the power going through the lines. For example, you pour beer into a glass and you get a head of beer. You can't pour anymore beer into the glass because the head is there. What the kvar does is they take away the head of beer and let you pour more beer into the glass.

The Special Obligation Charge is the transmission costs. That is the cost to transmit across the Dominion power lines and the leased facilities surcharge is since you don't own your lease facility it is jointly used with Dominion you have to pay a charge based on the value of that equipment and depreciation. We work with all the cities. We review that deprecation and the equipment in there and we work with all the cities in our participants to say is there a point where building your own facility will be cheaper than leasing from Dominion. At the point that we see that coming we will work with Dominion and get a facility built that will save you costs. We are constantly monitoring that.

Mayor Atkinson thanked Mr. Raber for his presentation.

2} **ADJOURNMENT:**

There being no further business to come before the Council at this time, Mayor Atkinson adjourned the meeting at 11:08 a.m.

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Dianne S. Pierce-Tamplen, MMC
City Clerk

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Stephen S. Atkinson
Mayor