

**City of New Bern
Board of Aldermen
January 29, 2011
City Hall Courtroom 6:00 P.M.
300 Pollock Street**

Special Called Meeting

Board Members in Attendance:

Mayor Lee W. Bettis, Jr.; Aldermen Sabrina Bengel; Victor Taylor; Denny Bucher; Johnnie Ray Kinsey; Bernard White; and Dana Outlaw.

Also in attendance: Mike Epperson, City Manager; Scott Davis, City Attorney; and Jon Rynne, Electric Utilities Director.

1. Discuss Proposed Merger of Duke and Progress Energy.

Mayor Bettis gave an overview and explained the process of the Duke and Progress Energy merger. In 1981, thirty-two (32) cities entered into an agreement to purchase a portion of four (4) power plants with Carolina Power and Light Company ("CP&L"), the company which is now Progress Energy. Two of the four plants being invested in by these Cities were nuclear power plants: the Brunswick plant and the Shearon Harris plant. The Shearon Harris plant was built after 1979, the year in which the Three-Mile Island event occurred, changing the regulation for the construction of nuclear power plants to a much more restrictive and expensive endeavor. The Harris plant was completed and put into operation in 1987. Within the same time period and under the exact same restrictive conditions, Duke Power built the Catawba Nuclear Plant in South Carolina. At the time that these plants were built, the cities that bought into them had no choice of who they could get power from. There was no open access to the transmission system mandated by the federal government. It was pay whatever the supplier wanted, in this case CP&L, or buy or build your own generator. The cities relied upon CP&L to build a plant in the most economical means as possible.

The cost of the construction of these nuclear plants was different with cost normalized to 2007 dollars. CP&L paid \$7.2 million per megawatt of output for the Shearon Harris plant construction. Duke Power paid \$2.9 million per megawatt of output for the Catawba plant. These plants were built at the same time with the same constraints, and yet the CP&L/Progress Energy's plant cost \$2.5 million times as much.

When Duke and Progress Energy merge, a huge amount of Progress Energy will be corrected by the sale of these plants to Duke. Electricities will be stuck with the mistake of the debt. The state legislators need to balance this inequity; we need the playing field to be leveled for our customers as well as Progress Energy. Why should the City of New Bern and the other 31 cities that partnered with CP&L continue to pay for the mismanagement of the

construction of this plant? Electricities wants the same treatment as Progress Energy. The ultimate solution would be for Progress Energy to pay the difference for the plants and Electricities maintain the stability of owning generation, our initial goal from 1981. The companies are targeting the merger to be finalized by the end of the year, if they can get regulatory and shareholder approval. Mayor Bettis believes Duke Power would already be buying part of the ownership in the four (4) plants as part of the merger, so they should "buy all of them".

Alderman White stated "no one city can fight Electricities alone. Each city has to first unite their citizens; then each city has to unite. We need to unite and form a people's movement."

Alderman Bengel stated to start the process by putting a plan together to stop the merger. The merger of Duke and Progress Energy will eliminate options for NCEMPA to secure supplemental energy needs for our community. The merger will create greater divisions within our community's based upon power suppliers, leading to the creation of no growth islands which lay within areas currently being served by Electricities.

Alderman Outlaw stated in the late 1970's and early 80's that utilities and state legislators became concerned that there would not be enough electricity to meet North Carolina's future need. The state's two investor-owned utilities (IOUs) had plans to build more plants, but high interest rates and rising fuel costs put the companies in a financial bind. They were concerned they did not have the capital to complete the projects. The cities entered into a contract to purchase a portion of four (4) power plants with CP&L. Two (2) of the plants are nuclear, and two (2) are coal plants. Nuclear is the way to go currently. As a commissioner, one must be straightforward in telling Electricities what New Bern is expecting. If one does not appear forceful, they will not pay you any attention. Alderman Outlaw further stated: "assume the debt or oppose the merger". The merger is going to have a long-term affect on New Bern to buy power.

Edwin Vargas, 230 Attmore Drive, stated this meeting is an excellent opportunity for the public to speak. He suggested the cities get the Governor and the State legislators involved in the process. Any decisions made should be in the best interest of the citizens.

Stevie Bennett, 1312 National Avenue, stated Progress Energy should have to get permission from the cities to sell their portions of the plants. Alderman Outlaw asked Mr. Rynne to explain the ownership of the plants. Jon Rynne, Director of Public Utilities, stated the ownership percentage of the four (4) plants is as follows: eighteen percent (18%) for one coal plant and thirteen percent (13%) for the other coal plant; and sixteen percent (16%) for both nuclear plants. NCMAPA1 consists of 19 cities and towns in the piedmont and western North Carolina, including some of the largest areas of economic growth. NCMAPA1 owns a portion of the Catawba Nuclear Station, operated by Duke Energy. NCMAPA1 provides wholesale power to its 19 participants. The western part of the state owns seventy-five percent (75%) of the Catawba Nuclear Station plant. "We do not own them

they own us”, stated Alderman Outlaw. Alderman Bucher informed Ms. Bennett that the entities did not need permission from Electricities to merge, but they need the approval from the government. North Carolina Eastern Municipal Power Agency (NCEMPA) is governed by a Board of Commissioners (BOC) which consists of 14 members elected throughout North Carolina. Each participant appoints a Commissioner and an alternate commissioner to the board. The Electricities Board of Directors (BOD) provides oversight of the NCEMPA operation. Mayor Bettis, Alderman Bucher and Jon Rynne, Director of Public Utilities, serve as commissioners for the City of New Bern, stated Jon Rynne. Alderman Bucher stated the Electricities Board works for the thirty-two (32) cities. “They represent us” stated Alderman Bucher. Alderman Outlaw had concerns that the majority of the Board of Directors is composed of non-elected officials. An example, eight (8) on a board and only two (2) out of the eight (8) are elected officials. The composition of the Board of Directors is heavy laden with non-elected officials, and “it perpetuates the status quote”.

Bernadette Green, 237 Drake Landing, stated she contacted the Electric Utility Commission in reference to electric utility rates and was informed the City of New Bern was not governed by the commission. She took the liberty to call Progress Energy and found out they charge eleven cents (11¢) outside the first 300 kilowatt hours. Duke Power charges seven cents (7¢) after the first 352 kilowatt hours, and the City of New Bern charges 1.43 cents (1.43¢) after the first 300 kilowatt hours. Her concerns are that if Duke and Progress Energy merge together, the city cannot compete and that there is the possibility the rates will escalate. The majority of the residents cannot afford the electric rates. She also expressed concern about how the electric lines are drawn, questioning why some residents are on Progress Energy and others are on the City of New Bern.

Jon Rynne, Director of Public Utilities, stated the City of New Bern is not governed by the North Carolina Electric Utility Commission, but instead by the Board of Aldermen. Electrical customers that are served under the commission do not have a direct contact (one-on-one) to discuss the rates; it is more of a bureaucracy. The Utility Commission decides whether the rates will increase or decrease. There is local control for City of New Bern residents through their Aldermen of a particular ward. If the merger happens, there is an amount of liability within the two (2) organizations coming together. The thirty-two (32) cities are considered as one big customer, which enables them to get competitive bids. The contract expires in 2017, and after then a new contract will be negotiated.

John Noto, 221 New Street, inquired as to what the city plans are in reference to the merger. Mayor Bettis stated the city wants to secure the agreement between Duke and Progress Energy, buy the agency’s assets and assume the liabilities held by the North Carolina Power Agency. Therefore, the objective would be to eliminate Electricities, stated Mr. Noto. The objective would be to get the trade association to work on behalf of the thirty-two (32) cities. The merger needs to benefit Electricities, not just Progress Energy stated Mayor Bettis. Mr. Noto asked if the city could exit the ownership. Mr. Rynne stated yes if the debt is paid off, but to exit the ownership is difficult. The Purchase Agreement specifies that the city is restricted from selling the electric system to pay its share of the

purchase debt; sale to another city is feasible if that city would assume New Bern's portion of the debt, but ownership by one city cannot exceed twenty-five (25%) of the plants. The Supplemental Power Agreement provides the contractual terms for all generation purchased above the ownership-interest power output of the plants. This agreement expires in 2017, and the City would need to give ten (10) years' notice if it intends to leave this contract. If the City elects to leave the contract, it would need to negotiate and retain a new contract with a power supplier to furnish the power necessary to serve its customers.

Bill Reiter, 1411 Brices Creek Road, asked how much debt Duke Power was assuming from Progress Energy and the City of New Bern. He also asked what the board plans for urging Duke Power to buy the agency's debt and liabilities in the merger. The debt from Progress Energy is \$12.2 billion and the City of New Bern's debt is \$2.2 billion from the purchase of interest in four Progress Energy plants in 1981. Mr. Reiter further asked what incentives are in place to convenience Duke Power to assume the smaller amount (\$2.2 billion) of the debt. Alderman Bucher stated he believes Duke Power has "zero incentives" to take on the agency's assets and liabilities. "We can talk all night, unless we convince Representatives G.K. Butterfield and Water B. Jones to flex their muscles and make sure this merger does not happen unless we are a part of it, he does not think it's going to happen because the value of the city's assets does not equal the debt." The best chance of making this happen is through the governmental agencies that have to approve the merger.

Nancy Hollows, 4438 Rivershore Drive, stated she pays five City of New Bern electric bills. Ms. Hollows asked if the \$12.2 billion debt is the total for the thirty-two (32) cities. Mayor Bettis stated yes and that it covered the eastern cities. What is New Bern's portion of the \$12.2 billion asked Ms. Hollows? Jon Rynne, Director of Public Utilities, stated \$143 million is the City of New Bern's share.

Toni Bonnici, 512 Jefferson Avenue, stated he supports the proposal, but he said the city should not throw all of its "eggs in one basket." He said refinancing the debt should also be a consideration. Mayor Bettis said that has already been done twice and that "it cannot be done again without lobbying Congress and that would be a dilution of this effort."

Frank Bolen, 308 Mellen Court, stated he could give the board \$2.2 billion worth of reasons why the companies will not support the proposal. "They could care less about New Bern," he said. The Mayor has expressed forming a grassroots committee of citizens. Mr. Bolen stated the city should work to get Electricities, the management organization for the agency, to support the effort and push for the proposal with lawmakers. Mayor Bettis suggested Mr. Bolen be a part of this grassroots committee.

Joe Way, 607 Neuse Harbor, thanked the board for having a good plan to stop the merger, and thanked Alderman Bucher for explaining how the economy of scale works. Mr. Way expressed a word of encouragement. He has experienced the same sort of bureaucracy from companies that dictates, but what they fail to realize is the power of a united front. A united front can stop the bureaucracy.

Phil Buffa, 125 Walden Road, stated it was discussed refinancing the debt. "Let's not kick the can down the road because years later our siblings will still be paying off the debt." Mr. Buffa requested clarification as to what would happen if the merger backfires. Alderman Bengel stated the merger between the two (2) entities would eliminate the options for cities to secure supplemental energy as well as create an island as far as what company serves what areas.

George Delaney, 219 New Street, asked what the potential gain is for the merger. He understands that \$3.9 and \$1.79 million of the electrical fund revenue is transferred to the general fund. Mr. Delaney further stated that is a very large amount of the city's annual budget. He inquired if the \$5.62 million cost had been converted into the cost per-kilowatt hours to determine the potential gain of the merger. Jon Rynne, Director of Public Utilities, stated the \$3.9 million is budgeted for shared services such as Information Technology, Finance and Customer Service, and the \$1.79 is budgeted for building, operating, and maintaining the transmission, distribution and infrastructure.

Mayor Bettis stated once again the objective is to secure the agreement between Duke and Progress Energy, buy the agency's assets, and assume the liabilities held by the North Carolina Eastern Municipal Power Agency.

Aldermen Bucher and Bengel departed the meeting due to prior engagements, time being 7:30 P.M.

The meeting was concluded with Mayor Bettis encouraging those who wish to work on the grassroots committee to sign up tonight or contact Jon Rynne, Director of Public Utilities, (252) 639-2821.

2. **Adjourn.**

Alderman Outlaw made a motion to adjourn the meeting, seconded by Alderman White. The motion carried unanimously, time being 7:45 P.M.

Mayor

City Clerk