

**MINUTES OF THE BOARD OF DIRECTORS
REGULAR MEETING
SOUTHEASTERN PUBLIC SERVICE AUTHORITY OF VIRGINIA**

November 17, 2009

At the Regular Meeting of the Southeastern Public Service Authority of Virginia (SPSA) held at 9:30 a.m., in the Regional Board Room at the Regional Building, 723 Woodlake Drive, Chesapeake, Virginia, there were:

ROLL CALL

Members:

Don Williams, Chair	(NO)
Bryan L. Collins	(CH)
Barry W. Cheatham	(FR)
Stan D. Clark, Vice Chair	(IW)
Jeffrey A. Gardy *	(SU)
G. Timothy Oksman	(PO)
Dallas O. Jones <i>absent</i>	(SH)
Michael J. Barrett	(VB)

Alternates:

William E. Harrell	(CH)
June Fleming *	(FR)
Thomas J. Wright, III <i>absent</i>	(IW)
Stanley A. Stein	(NO)
Stephen E. Heretick	(PO)
Mike Johnson	(SH)
Selena Cuffee-Glenn	(SU)
John Barnes	(VB)

Others present at the meeting included SPSA staff Mr. Rowland (Bucky) Taylor, Executive Director, Ms. Liesl R. DeVary, Treasurer to the Board, Mrs. Lou Ann Ivory, Executive Assistant and Secretary to the Board and Anthony M. Thiel, SPSA General Counsel. Numerous legal and financial individuals from each of the member localities, consultants and several staff members from the Hampton Roads Planning District Commission were also in attendance.

(CH) Chesapeake; (FR) Franklin; (IW) Isle of Wight; (NO) Norfolk; (PO) Portsmouth;
(SH) Southampton County; (SU) Suffolk; (VB) Virginia Beach

* Indicates Late Arrival (after beginning of Closed Session)

** Indicates Early Departure

The meeting then began with the invocation by Mr. Collins (CH), the Pledge of Allegiance and was followed by Roll Call. A quorum was present.

PUBLIC COMMENT PERIOD

There was one speaker for the Public Comment period who was called to this podium.

William Wrenn, 2556 Woodshire Circle, Chesapeake

“William Wrenn, 556 Woodshire Circle in Chesapeake. Thank you, Mr. Chairman, members of the Board. You have received very substantial package for the purchase of the whole company. From what I read, one involves a very intricate financial plan and one involves cash. And in today's economy it seems like cash is king. I would ask that this body move immediately to sign the phase one proposal from Wheelabrator so that this body can receive its infusion of a large cash amount of money to continue with your work, while you investigate the possibility of a phase two plan. At the same time this would free up the engineering and planning of major overhauls and upgraded, necessary upgrades to both the RDF plant and the power plant. Thank you very much.” Chairman Williams thanked Mr. Wrenn.

ACTION AGENDA:

ITEM NO. 1: APPROVAL OF THE REVISED BYLAWS

Mr. Taylor stated that this item had been provided in the agenda packet, adding that Mr. Thiel, General Counsel, had given a briefing on it the last meeting. It requires two meetings before bylaws can actually be adopted and at this time Mr. Thiel will go over the particulars are with you.

Mr. Thiel said the Bylaws that we included with the agenda package are basically the same with two minor revisions one was based on the comment received from one of the city attorneys. The first full copy shows the entire Bylaws with all of the changes, including the two additional minor revisions. The minor revisions are shown on the two-page document which is also attached so you have the opportunity to see the additional changes that are being recommended. We are requesting that you make a motion to approve the revised bylaws as presented in this agenda package to become effective on January 1, 2010. Mr. Barrett (VB) made such a motion and it was seconded by Mr. Collins (CH). All present voting yes; opposed none; motion carried by a unanimous and recorded vote.

ITEM NO. 2: REQUEST FOR CLOSED SESSION

Mr. Thiel stated that in the closed session motions had been revised and a new copy had been placed at each Board members seat to reflect a minor change. The motions are exactly the same except we have added that to the motion for inclusion the name of the Hampton Roads Planning District Commission's representative and its' consultant SCS Engineers. Since SCS is here today we wanted to include them. So we are asking for a motion pursuant to Roman Numeral I and Roman Numeral II on that revised agenda note for inclusion for non-members and a motion to approve the request for a closed meeting as set forth in that document.

Such a motion was made by Mr. Cheatham (FR) and seconded by Mr. Clark (IW). All present voting yes; opposed none; motion carried by a unanimous and recorded vote.

Upon conclusion of the Closed Session, Mr. Collins (CH) made a motion to certify the closed session as set forth in paragraph Roman Numeral III in the agenda note, Request for Closed Meeting. The motion was seconded by Mr. Clark (IW).

III. Motion to Approve Certification after Closed Meeting.

The Board of the Southeastern Public Service Authority of Virginia hereby certifies that, to the best of each member's knowledge: (a) only public business matters lawfully exempted from open meeting requirements by Virginia law under the Virginia Freedom of Information Act were discussed in the closed meeting to which this certification applies; and (b) only such public business matters as were identified in the motion convening the closed meeting were heard, discussed or considered in the closed meeting just concluded.

ITEM NO. 3: ACTIONS ARISING FROM CLOSED SESSION

Chairman Williams called upon Mr. Warren Nowlin with Williams Mullen to come forward and give a presentation on the two all-asset proposals.

Mr. Nowlin said he would give a quick synopsis of the ReEnergy supplemental proposal and the Wheelabrator all-asset proposal. These are the two most recent proposals which are non-binding proposals to purchase all of SPSA's assets. I will summarize ReEnergy proposal first. These are the supplements and changes that essentially respond to the member communities' comments and questions that were presented to the original proposal that was submitted July 7th. Mr. Nowlin then gave a PowerPoint presentation that is attached as Appendix A.

Mr. Nowlin said ReEnergy has now presented to us the proposed form of waste disposal agreement. It is referred to as Amended and Restated Use and Support Agreement but the essence is it would be separate waste disposal agreement negotiated with each of the member communities. And they have adjusted the tipping fees. The tipping fees have now been specified more definitively. In the first two years and the base year they increase from \$86.50 to \$93.50. They have also provided alternative tipping fees based on shorter term options that would be short of the full 20-year waste disposal agreements; they have provided details on host community benefits, additional transfer station lease requirements and they have modified the Navy's steam extension to reduce it from 12 to 5 years.

A few comments on the waste disposal agreement (WDA). The WDA would be negotiated with each of the member communities for a minimum of eight years, up to a total of 20 years depending on the option elected. And any of those would be renewable or extendable for two 5-year extensions and would be based on market fees at the time. One material difference from the Wheelabrator service agreement is there are no obligations to maintain or operate facilities in any particular way. It is a classic kind of bare-bones waste disposal agreement whereas in Wheelabrator transaction member communities have addressed many of their concerns about how the facility should be run. There are no minimum waste volume

requirements in the ReEnergy proposal. You would pay for what you use, each and every community would pay for what it uses and importantly there are no out of state waste restrictions and there is no undertaking or restriction with regard to disposal of ash or non-processable in the Camden County, North Carolina waste facility or landfill that is expressed by one of the member communities that we have now addressed in the Wheelabrator proposal. There is no dispute right for "change in law costs" prior to the pass-through of those costs to the member communities. There is no performance guarantees or default damages. And it would require member communities to pay disposal costs for unacceptable waste along with a 50% administrative surcharge. And finally, there is no member community termination right or liquidated damages for termination.

Mr. Donahue will follow me with a financial analysis but these are the revised base tipping fees. You will see that for five of the communities they start at \$144.50, reduced to \$119, and then the base year has now been modified to \$93.50 in year 2013 plus the CPS. And it shows the cost for Suffolk and Virginia Beach. ReEnergy has modified the proposal to account for two possible shorter term fragment. It will now consider the initial 8-year term plus 6-year extension or 12 year extension so they have three proposals either a eight-8 deal, a 14-year deal or a 20-year deal and you can see what the impact is on the tipping fees here. In effect in the 8-year deal the tipping fees are materially higher, to be compared to the Wheelabrator waste to energy proposal alone; net effect would be, the difference is you would continue to own the assets in the Wheelabrator deal. The host community benefits now specify the benefits for Suffolk Portsmouth and Virginia Beach without going into great detail you can see what they are. \$3 a ton for waste delivered to the Suffolk after 2018 plus Re-Energy would give back 30% of the landfill gas revenues. This is an issue in terms of re-negotiation of the landfill gas deal that you now have on the table.

The lease and good neighbor agreement would need to be finalized with Portsmouth and Re-Energy would pay Portsmouth \$1 per ton for the waste combusted at the facility. In the City of Virginia Beach we need to enter an amended ash agreement and ReEnergy would pay Virginia Beach \$3 a ton for waste disposal in Virginia Beach. Transfer station leases. This is significant clarification because we now have a deal where there are three possibilities, either an 8-year deal, a 14-year deal or a 20-year deal but regardless of the term of the waste disposal agreements, they said ReEnergy will require the transfer station for 20 years. So the lease will be 20 years regardless of what their underlying disposal agreement is. Capital structure. No material change here with the exception of how the volume cap allocation would be staged in different years. There is still 3 to 1 debt/equity ratio, \$242 million in debt, ReEnergy would also use SPSA's existing debt reserve of \$15 million. It would require ultimately \$200 million in private bond cap allocation that would be in addition to and competitive with a \$167 million cap allocation that would be required by SPSA in order to avoid tax liability. So a total of \$367 million in private activity bond cap allocation. Re-Energy has indicated it would be willing to close with \$100 million volume cap allocation as long as it could get commitment for another \$100 million from the State of Virginia. I don't know how the state would make that type of commitment in advance. But even in the first year you end up with the need for \$267 million in volume cap allocated whereby it still creates no additional jobs so that's tough. The other conditions that we have previously noted in our public presentation have not changed and I refer to my earlier summary in that respect.

This is a recap of these various contingencies. I will note that three of the member communities have passed resolutions: Isle of Wight, City of Norfolk and Franklin that they would not move forward or approve 20-year waste disposal agreements. There is a great deal of negotiation would be required with member communities on an individual basis.

Let's talk briefly about the Wheelabrator all-asset proposal which is basically a two-step transaction. They would first close on the waste to energy assets at \$150 million; it would generate \$150 million in cash to be paid out on debt immediately. There would be a second phase, a second-stage closing on the remaining assets which would be the landfill and the transfer stations and transfer stations and other assets. That is a non-binding offer that is valid only through December 31st, a very, very tight time frame. While we do have good documentation already in place or negotiated I should say with Wheelabrator on the waste to energy that could be potentially utilized here. \$240 million total purchase price, \$150 waste to energy, \$90 million for remaining agencies. No financing contingency whatsoever. It is an all-cash deal assuming you could finalize on the second phase and payable in full at each closing. The initial service fee which is negotiated in our current proposed documentation on phase one is \$36 a ton plus the internal SPSA cost. We know that takes you to a higher tipping fee. Phase two would be a net effect tipping fee of \$85 per ton in the base year whenever that second stage closed subject to a CPI adjustment annually. This again will require a 20-year extension of the Use and Support Agreements for the member communities. So once again you have concern that three member communities have indicated in advance they would not do a 20-year deal. And it is non-binding; it is subject to further due diligence.

Chairman Williams then called Mr. Ed Donahue, Municipal and Financial Services Group to the table to give his firm's presentation.

Mr. Donahue said, "Mr. Chairman, Board members, we appreciate the opportunity to be here. We were engaged by SPSA last Monday (a week ago) to look at the two proposals you see for the purchase of essentially of all of SPSA's assets. I won't repeat what Warren just said, some of the background here, but we sent a report to you on Friday. The terms and our perspective is mindful looking at this from a business point of view, the ReEnergy proposal proposes payment of \$240 million. There are several contingencies; financing is 75% of the purchase price and allocation of the tax exempt debt and allocation of additional tax exempt debt in subsequent years. Several contingencies, the key one being the extension of the Navy contract, the signing of 20-year transfer station leases, it is a non-binding proposal and one of the key things affecting our perspective of this is that while the people involved in Re-Energy, there are some people with significant industry experience, ReEnergy is basically a financing vehicle. Their style of business is such that it will require companies to clean them up, operate them and sell them at a profit, so they don't really operate any solid waste management systems anywhere that we're aware of. They have no corporate experience in operating a facility or facilities such as this. The benefits of their proposal: No minimum annual tonnage requirements from member communities. Their projected tipping fees are considerable lower than what your projected tipping fees would be, whether you continue to do business with you owning all the assets or if you sold some of the assets like the WTE

facilities to Wheelabrator. And either case, their tipping fee is lower and will eliminate (their proposal to accept it) all of your debt.

The Wheelabrator proposal is \$150 million cash when you close on the first part of the deal which is the sale of waste to energy facility and \$90 million cash when you close on the remaining assets. It is an all-cash transaction with no financing contingencies. They do not need financing from anybody; they would write a check. One of the real red flags for us would effectively create a monopoly in solid waste services in this part of the world. The benefits of the Wheelabrator proposal is that you could close on something you essentially already negotiated, your waste to energy facility, and then you would negotiate the sale of the remaining assets in what they are calling phase two. Their projected tipping fee is lower than both ReEnergy's projected tipping fees and it is estimated, we estimate it would be lower than if you sold them the waste to energy facilities and then SPSA operated the rest themselves. So Wheelabrator's projected tipping fee, if you look over time is the lowest of all the options.

These are some projections that we made based upon data given in the two proposals plus assumptions we made. You will notice that the top line (referring to the PowerPoint presentation graph), the one that shows the most extensive one is if SPSA sold the WTE facilities to Wheelabrator and then operated the remaining facilities itself and paid off all its debt by 2018. That line goes down very quickly. And these are all estimates and this is all work done in a week, but I am pretty confident that you would see that you would get down pretty much to where the Wheelabrator tipping fee would be by 2018, and you would still continue to own the assets. In any event, no matter what you do, your tipping fee is going to be lower in 2018 than it is now. It would be; it could be a very painful period between now and 2018 to get you there. If you did nothing, if you didn't sell the waste to energy facilities to Wheelabrator, and got longer term commitments from your member communities and refinanced your debt you would have lower tipping fees than any of the numbers there. But the assumption we use was that your members by and large were not willing to commit beyond 2018, at least some of them, so it didn't make sense to spend time looking at that situation. But you see the trend of the tipping fees going forward. Our recommendation from a business perspective is that you reject both of the proposals you received to purchase all your assets, that you continue to work toward closing on the sale of the waste to energy facilities to Wheelabrator, then your Board can consider if it wants to either operate the remaining SPSA assets itself, or contract out the operation of those assets or it could sell those assets but it doesn't have to do it under any kind of high pressure deadline. It would allow you to continue owning the assets which gives you some negotiating strength in terms of future solid waste in the region. So in terms of a lot of qualitative, not quantitative, but looking at the risks and rewards as a businessman I would suggest if you really can't get the extension from your members that the Wheelabrator-waste to energy facilities deal was the best in front of you and that's the one that I would recommend that you pursue it.

Chairman Williams then mentioned that before they go to questions and comments, the City Managers a few months ago hired SCS Engineers to do an independent analysis of the solid waste project in Hampton Roads and Bob Gardner with SCS is here. Chairman Williams then asked Mr. Gardner if he had any comments and Mr. Gardner said the following:

“Good morning. We were retained on Friday to begin this process of reviewing the various proposals and spent the weekend doing some of that and began to process some of the financial analyses and I think it is fair to say that given the analysis that we have done previously with regard to the all-asset sale back in the spring, looking at either selling part or all of the assets it is clear if you make the leap towards renegotiating any agreement you can do so yourself. You would come up with overall tip fee that is significantly lower in the framework as you see on the screen.” Chairman Williams said “Start a new SPSA.” Mr. Gardner responded, “Basically, yes. That's intuitively obvious; you look at the debt structure \$240 million over the however many years that you have and you can do the math in your head - it is the governing issue now. So the question you can do that yourself if you so chose and most of the communities have different perspectives so that probably is highly unlikely. The proposals that you have received; ReEnergy's is a very thoughtful proposal obviously. They spent considerable time and effort to try and address the issues that have been raised and so it is definitely an A+ proposal. The concerns that have been raised with regards to the corporation as it relates to running an operation of this stature is probably the biggest concern that I've heard and like anybody else somebody comes to do something for you, you say what have you done like this before. The partners have done major systems operating landfills and various other solid waste systems but in terms of operating waste to energy facilities is probably one of the biggest concerns. So in terms of the ReEnergy proposal you have considered it over a year; they made many presentations to the various Boards that I am aware of so you have been considering the various options. And there have been questions that have been asked and questions that have been answered in the overall process. But there is still that minimum threshold of confidence that at least I perceive that this Board has and that more analysis likely wouldn't change the fundamental objections that have been raised with regards to experience, the corporate entity, the questions and the debt whether you that would actually be able to happen, questions of the Navy agreement if that would actually occur; the willingness of the communities to commit. Those are some of the problems and the proposal that you had from Wheelabrator with regard to non-processible waste not going to the Regional Landfill provides an extension of your landfill which is a pretty significant factor as well. So I think the reality of the situation appears that you have a real agreement at this junction with regards to a real proposal, a cash offer. You have a negotiated agreement. It is firm in regards to its terms and conditions. You have real debt you are facing at this juncture. Next year it will come due and you have to deal with that and you will go up to \$300+ to deal with that if you don't make a decision at this juncture. So I guess my fundamental conclusions are one: You can do it yourself and do it for less. Or barring that, the Wheelabrator proposal is probably the most likely.

Chairman Williams called for questions and comments, noting that they could be addressed to Ed or Bob or to anyone of them. He then went around the room.

Mr. Barnes (VB) said one question, on the tipping projections that we seen here, they are taken out to 2018, what's the 2018 on the chart that we have here, the one by Municipal and Financial Services Group? Mr. Donahue responded that they did not prepare formal projections past 2018 because we have had less than a week to work on this but basically at that point everybody's tipping fee goes up by the CPI, so when you get to 2018, the SPSA operated residual facilities with Wheelabrator owning the waste to energy facility and

Wheelabrator owning all the assets start to converge, and if you look at the ReEnergy proposal and conclude that it is really not likely to be able to close at all, at that point 2018 there is very little difference between SPSA owning some of the assets and Wheelabrator owning the waste to energy facility and Wheelabrator owning all of the facilities in terms of the tipping fee. It sort of re-enforces what Bob Gardner said you still own the assets and will not be faced with a monopoly situation. You will have strength to negotiate and everything would go up by the CPI, everybody would be in \$85 to \$95 range no matter which of those options you took. The question is how much lower the SPSA facility would be if you kept everything and refinanced your debt beyond 2018 but since that's not on the table that is an interesting theoretical question but not a practical one. But for all practical purposes, you should be in the \$85 to \$95 range for tipping fee then and adjusted by CPI after that. Based on data we have now. I have no idea what is going to happen to regulations and that but based on what we know now. Mr. Barnes said he was just curious as to how much is driven by debt and how much by market, what the market would bare at this point? Mr. Donahue said the projections on tonnage are the ones we used before, they haven't changed but a lot of SPSA's costs are driven by debt although after 2018 you wouldn't have any debt you would cash finance everything. Mr. Barrett (VB) said, "Mr. Chairman, after two years of incredible conversation, far more knowledge of our consultants than I ever really hoped I'd ever had, I don't need to ask any more questions. I am ready to act.

Mr. Cheatham (FR) said, "I think I have got my mind made up on it, on the Wheelabrator on the cash buyout. My problem there it is 20-year commitment which Franklin is not willing to make. The ReEnergy, I have a problem even though they give us one without extending the time the cost savings is not there. I am concerned about their not addressing the out-of-state garbage and they have a lot of high debt guarantees in the future for more debt. To me it looks like the Wheelabrator with \$150 million cash is the best option with still keeping the landfill for future sale and operation." Ms. Fleming said she would agree. "I think we have done thorough analysis and gone past due diligence and the reports all seems to be consistent no points where they basically vary with each other. You heard from the entities that sit around this table that there is no enthusiasm and some have passed resolutions they would not make 20-year commitments and compare it all and the analysis and listen to everything said I think the decision is obvious given sufficient time. I don't think you can give any more information and I agree with Councilman Cheatham it is time to make a decision."

Ms. Cuffee-Glenn (SU) said, "I'm going to leave it to Mr. Gardy but I think we need to end this phase of our deliberation and look beyond 2010." Mr. Gardy said "When I came on here last February, I was told probably have to put a chain across the gate to close it down. Fortunately we were able to come up with short-term financing. Since then I thought it would be closed up middle of summer or early fall and everybody else on this Board did. Now we have reached November and we have had consultants on our team who have done a whole lot of work, and all of them say go with the short term \$150. And I cannot say that we should buck that at this point and I know that the people will give us the short-term financing are looking for us to make the hard decision to go ahead and I don't think we have but one decision that is to sell the waste to energy facilities for \$150 and get the cash and then figure out. Well I won't be here but somebody else will figure out what to do with it then."

Mr. Clark said Mr. Cheatham stated his position very clearly. Mr. Stein said he thought it has been said well and everything there is lot of requirements we have under the existing state laws to review and analysis and I think we have done that. I think we have gotten a lot of good information. He said he knows the City of Norfolk has taken a position in terms of where it will go in the long term and so he thinks we are ready to support.

Mr. Johnson (SH) said “in 25 years of service to local government I can't ever recall proposals receiving the scrutiny, the evaluation that these proposals have gotten. We have invested eighteen months and hundreds of thousands of dollars in technical and legal analysis. If there was any appetite in this room to do a 20-year deal we would have already done it and saved ourselves the pain and agony of the past two years. So I don't have any question that the most meritorious proposal that we have before us today is the Wheelabrator waste to energy proposal.”

Mr. Oksman said, “Mr. Chairman, my speech is going to be a little bit longer than Mike's. Being able to count, I feel the vote that SPSA is about to take is the right vote, and I would explain why I think it is the right vote, but I also don't think it should be taken today and I will explain why I don't think it should be taken today.

If something looks too good to be true it usually is, and the ReEnergy proposal looks too good to be true, a rate that's less than half of what's proposed by Wheelabrator. Why is that too good to be true? Look at the two different companies. ReEnergy, I think we all know right now, is basically investment bankers trying to get into the solid waste field. While several of the individuals who are associated with this newly-formed corporation have very impressive individual credentials, the company itself, ReEnergy, is a start-up company. It has no track record. It has a short time period of acquiring and operating two ongoing facilities in New England that are completely unlike what we have here. One facility is a construction debris and waste facility, and the other one is a wood chipping facility. Neither one of those is a municipal solid waste or waste to energy facility such as we have here. So we have a company that has no track record operating the type of facility that they are seeking a long-term contract to operate for our entire region.

We also know from the makeup of the company that their apparent intent is to operate the facility until it becomes profitable and then it gets flipped to some new owners. The other side of the coin, who is Wheelabrator? Wheelabrator is an affiliate of waste management. In their respective fields these are the two largest and best established firms in the world and not only do they each have a very impressive track record of operating facilities like this and operating them well, each of them has stable executive staffs and people and I met a number of them, people who have been with those companies for decades, sometimes up to 30 years. So you know you are getting a company that can deliver with Wheelabrator. You don't know that with ReEnergy. As far as their ability to deliver on the low rates, I think that's very questionable. As we know now, the public does not fully understand. There are a lot of things hidden in the fine print that could result in very, very substantial increases in rates above what's already been promised. That's not fully understood by the public yet, but there are some hidden traps in the proposed contract. So, in my mind there is no question about

which is the best deal and which is in the public interest, it is to go forward with the deal recommended by the consultants.

But, again, I don't feel we should make the decision right now. And the reason is that we have just today received these final consultants' reports recommending against the ReEnergy deal. The members of this Board have not had a full opportunity to study and digest those reports themselves, let alone take them back to our governing bodies in our communities. So, if the Board goes ahead today and votes to approve the original Wheelabrator proposal, this is going to come as a surprise to some of the home communities and certainly to a lot of the members of those communities. I would note that the agenda for today's meeting did not include this resolution that we are voting on today. The public did not know that this resolution was going to be voted on today, and I think voting on it today without that advance notice to the public gives ammunition to everyone out there who is going to say that SPSA operates in secret and it makes arbitrary decisions. And I don't want to see SPSA take that hit. I know how hard a number of people in this organization have worked to try and come about with the right decision. Again, I feel this is the right decision. I am full of admiration for our Chairman, the amount of time that he has put in to try and bring about the best decision for the region, but I think the decision needs to be made in a way that gives adequate advanced notice to the public, and I don't think that has happened, and for that reason I am going to have to abstain on the vote.

Mr. Collins (CH) said, "Thank you, Mr. Chairman. As it relates to the proposal here at hand, I want to bring out a couple items once again here. Be mindful that we have to protect our assets, our regional capital assets and our resources, regional and also our individual localities. One that is very important to us from the region's perspective and Chesapeake specifically is the Northwest River water shed and Camden County landfill. I was certainly looking forward to have specific restrictions on the uses of it.

Another item that certainly is to be mindful is that I think we don't always keep in mind that the capital cost for expanding the landfill in Suffolk -- currently there is almost \$60 million given depending on what date the estimates would go in, but either way it is a significant amount of money approaching \$60 million in capital costs that we would avoid having to do. And any time we need to spend additional monies that is always a direct relationship to our tip fees.

We also, I think, need to be mindful of requiring the full faith and credit of each of the member localities. I believe most localities are certainly trying to reduce their credit obligation and exposure and keep it available for the significant core structures and core services that the member localities and the region actually require. And I think this past weekend is a good example of being able to have resources available in these emergency situations. Also, we have the piece that you can't get a dollar value around things such as member localities paying disposal costs for unacceptable waste. That hasn't really been defined as well as it could, what does that mean, how much unacceptable waste could actually be generated and what type of additional cost would be passed onto the member localities. We have our assets such as the transfer stations and I am not sure that we would be wanting to sign the 20-year transfer station and even if we get people to do a lower term such as 8 year.

And the real significant piece that is hanging out there is again a credit issue, the volume cap allocation. So looking at giving the state volume cap allocation not just for the current year but for future years is really significant when you have an opportunity to have a cash-out and as we think we have a speaker, essential speaker, address the idea of you know we have a cash opportunity and now probably is the time to go ahead and address that. I will hold my comments until that point.”

Mr. Harrell (CH) said, “Mr. Chair as an Alternate to this Board, in addition to that as you know I worked very closely with my colleagues, chief administrative officers, and I certainly believe and certainly I think the record will show the CAO plan with the approval of this Board has worked. When you look at the refinancing benefits that have occurred and as a result of that the financial position of SPSA is certainly in a much better position but that is only part one of the plan. Certainly when you look at the waste to energy sale and we have reviewed the work of the consultants here, the information from SCS we have consistently kept the Chesapeake City Council informed. I certainly believe as City Manager with the fiduciary responsible to make recommendations to the Chesapeake City Council that this deal as currently vetted is considered with the tenancy of the CAO plan because what do we talk about, the orderly sale of assets to reduce the looming debt of SPSA and the financial burden it places on the area communities. Now it is important to note that executing this deal which I do think is in the best interest of SPSA and the member communities doesn't preclude the sale of other assets and at some point in future perhaps the whole operation but that is certainly something that needs to be evaluated. Placing SPSA in a stronger position certainly I think helps position the new Board as they come in to implement I believe other aspects of the plan. You are talking about a cash-funded deal. We all have projects in our communities with very capable folks that aren't moving. The question is why. They can't get financing. So I think there is a significant risk to a situation where you have got to get financing for such a significant amount, so a cash-funded deal clearly is a better option. You have an experienced operator that's already been talked about, continuity of the executive team. Clearly there are benefits. I think the extension of the life of the land fill is very significant. Not only today but after 2018 that becomes a significant asset that the communities can leverage in terms of the sale or perhaps some new entity. When you look at the volume cap issue, certainly the allocation needed to implement the Wheelabrator deal is much more reasonable in the amount and steps should begin, a decision should be made immediately to begin that process with the Governor to try and get that allocation. And then finally I think the communities are in agreement in general agreement I think with the sale of the waste to energy facility. There is not agreement as we've heard for everyone to come into the ReEnergy concept of everyone being equally at the table over a three-year period. I would like to see it; Chesapeake would love to see it but it is not there. The final piece I think there is a misnomer that the tipping fees are higher as a result of the Wheelabrator deal and I think that is a misunderstanding of what constitutes the tipping fees. The reason why the fees are higher is your cash funding capital projects as well as you have the repayment on the residue and ash agreement, and based on that certainly the Chesapeake City Council will urge SPSA to perhaps work with Virginia Beach to maybe smooth those payments out to perhaps provide some relief to the communities. Certainly making sure that that debt is appropriately retired but perhaps smoothed out so that could help level our fees as well as to very carefully analyze capital projects to keep the pressure off of the rates. So for those reasons I think the Board

does need to act. I think there has been significant vetting and I do think it is in the best interest of SPSA and the member communities which is important.”

Mr. Spore, Virginia Beach City Manager, said, “Not being a Board member I want to express my appreciation to the Board for allowing us to participate in this process. You pretty carefully covered the thoughts of the CAO’s and I would just congratulate the Board on the process you have been through. Like Mike’s observation, it has been one of the most thorough analysis I have seen and glad to be part of that.”

Ms. Regina Williams, Norfolk City Manager, said he would “ditto” what Mr. Harrell and Mr. Spore said.

Chairman Williams asked if there were any further comments from the Board and there were none and he then asked if anybody want to entertain a motion. Mr. Barrett (VB) said, “Yes, sir, with clearly the unanimous consent of our consultants and our member jurisdictions, I move the approval of the Resolution Authorizing the Termination of the Procurement Related to Sale for All of the Assets of Southeastern Public Service Authority of Virginia and Authorizing the Execution of the Wheelabrator Technologies, Inc. Offer to Purchase and Operate SPSA’s Waste to Energy Facilities.

Mr. Collins (CH) said he would second that, but he would still like to have the attorney take the opportunity to read these three pages of resolution into the record so it is real clear what it is we are voting on.

The resolution was then read into the record and is printed herein:

**RESOLUTION AUTHORIZING THE TERMINATION OF THE
PROCUREMENT RELATING TO SALE OF ALL OF THE ASSETS OF SOUTHEASTERN
PUBLIC SERVICE AUTHORITY OF VIRGINIA
AND AUTHORIZING THE EXECUTION OF THE
WHEELABRATOR TECHNOLOGIES INC. OFFER TO
PURCHASE AND OPERATE SPSA’S WASTE TO ENERGY FACILITIES**

TERMINATION OF THE PROCUREMENT RELATING TO THE SALE OF ALL OF SPSA’S ASSETS

WHEREAS, on July 7, 2009, Southeastern Public Service Authority of Virginia (“SPSA”) received an unsolicited conceptual proposal (the “ReEnergy Proposal”) under the Virginia Public-Private Education Facilities and Infrastructure Act of 2002 (the “PPEA”) from ReEnergy Holdings LLC (“ReEnergy”) for the purchase of substantially all of SPSA’s assets, including its waste-to-energy facilities (the “All Asset Procurement”); and

WHEREAS, in accordance with Section 56-575.6 of the PPEA and Section II.B of SPSA’s Combined Guidelines for projects proposed pursuant to the PPEA and the Public-Private Transportation Act of 1995 (the “Guidelines”), SPSA received written comments on the ReEnergy Proposal from the Cities of Chesapeake, Franklin, Norfolk, Portsmouth, Suffolk and Virginia Beach and the County of Isle of Wight, each a member community of SPSA (collectively, the “Member Community Comments”); and

WHEREAS, by motion adopted on September 23, 2009, the Board accepted the ReEnergy Proposal for conceptual phase review in accordance with Section 15.2-5102.1.5 of the Virginia Water and Waste Authorities Act, the PPEA and the Guidelines; and

WHEREAS, on September 24, 2009, SPSA posted the ReEnergy Proposal on SPSA's website in accordance with Section 56-575.17(A)(2) of the PPEA; and

WHEREAS, on September 25, 2009, SPSA posted on SPSA's website and at its offices and published notice in the Virginian Pilot for four successive weeks stating that SPSA (i) has received and accepted an unsolicited proposal under the PPEA, (ii) intends to evaluate the proposal, (iii) may negotiate an interim and/or comprehensive agreement with the proposer; and (iv) will accept for simultaneous consideration any competing proposals that comply with SPSA Guidelines, all in accordance with Section IV.B.3 of the Guidelines; and

WHEREAS, on September 28, 2009, SPSA issued a Request for Proposal (RFP No. 0014-10) to engage an independent consultant to evaluate the ReEnergy Proposal and any competing proposals received during the 45-day period in accordance with Section II.A.3 of the Guidelines; and

WHEREAS, the Franklin City Council on September 28, 2009, the Norfolk City Council on October 6, 2009, and the Isle of Wight Board of Supervisors on September 24, 2009, each passed resolutions stating that the respective member community would not enter into a 20-year waste disposal agreement with ReEnergy; and

WHEREAS, on November 9, 2009, SPSA engaged Municipal and Financial Services Group LLC (the "Independent Consultant") to evaluate the ReEnergy Proposal and any competing proposals and to provide to the Board independent analysis regarding the specifics, advantages, disadvantages, and the long- and short-term costs of such proposals; and

WHEREAS, on November 9, 2009, SPSA received a competing proposal from Wheelabrator Technologies Inc. ("Wheelabrator") relating to the All Asset Procurement (the "Wheelabrator All Asset Proposal"); and

WHEREAS, on November 13, 2009, SPSA posted the Wheelabrator All Asset Proposal on its website in accordance with the PPEA; and

WHEREAS, the Board has spent considerable time, effort and expense in reviewing the ReEnergy Proposal and Wheelabrator All Asset Proposal, and has given consideration to the Member Community Comments and the resolutions passed by the Franklin and Norfolk City Councils and Isle of Wight Board of Supervisors; and

WHEREAS, based on financial and legal analysis and advice of its consultants, counsel and advisors, including comments raised by the member communities through the Member Community Comments, the Board has concluded that considerable contingencies, limitations and uncertainties exist in both the ReEnergy Proposal and Wheelabrator All Asset Proposal which present significant risk to consummation of a transaction and the ultimate structure and benefits that would result from the sale of all of SPSA's assets under the foregoing proposals; and

WHEREAS, the Board has spent significant time, effort and expense in conducting a PPEA procurement relating to the sale of SPSA's waste-to-energy facility assets and has received a binding irrevocable offer from Wheelabrator which does not include such contingencies and other limitations

contained in the ReEnergy Proposal and Wheelabrator All Asset Proposal, and the structure and benefits are known and documented in a binding and irrevocable offer; and

WHEREAS, the Board has concluded that it is in the best interests of SPSA and its member communities to reject the ReEnergy Proposal and Wheelabrator All Asset Proposal and to terminate the All Asset Procurement in accordance with the Guidelines.

EXECUTION OF THE WHEELABRATOR TECHNOLOGIES INC. OFFER TO PURCHASE AND OPERATE SPSA'S WTE FACILITIES

WHEREAS, SPSA has been engaged since May of 2008 in the procurement (the "WTE Procurement") for the sale and operation of SPSA's waste-to-energy facilities in Portsmouth, Virginia (the "WTE Facilities") following the receipt of an unsolicited proposal from Covanta Energy Corporation ("Covanta") on May 28, 2008 pursuant to PPEA; and

WHEREAS, following the acceptance of other competing proposals received from Energy Answers International, Fortistar LLC and Wheelabrator under the WTE Procurement and evaluation of such proposals by SPSA and its independent consultants, on September 24, 2008, the Board approved Covanta and Wheelabrator for participation in the detailed review phase of the WTE Procurement in accordance with the Guidelines; and

WHEREAS, from February 2009 through July 2009, SPSA's Chairman, staff and legal advisors conducted extensive competitive negotiations with Covanta and Wheelabrator, including multiple in-person meetings, relating to the WTE Procurement; and

WHEREAS, the Board and SPSA's staff have spent considerable time and effort over the past eighteen months on the WTE Procurement and SPSA has incurred significant transaction expenses, costs and expenses of attorneys, consultants, advisors and engineers, in conducting the WTE Procurement; and

WHEREAS, on July 17, 2009, SPSA received offers from Covanta and Wheelabrator under the WTE Procurement; and

WHEREAS, in August 2009, SPSA's Chairman, staff and legal advisors conducted additional discussions and negotiations with Covanta and Wheelabrator; and

WHEREAS, on September 9, 2009, SPSA received a binding irrevocable offer from Wheelabrator (the "Wheelabrator Offer") for the purchase and operation of the WTE Facilities, composed of a purchase and sale agreement, in the form attached hereto as Exhibit A (the "Purchase and Sale Agreement"), and a service agreement, in the form attached hereto as Exhibit B (the "Service Agreement"), and together with the Purchase and Sale Agreement, the "Comprehensive Agreement"; and

WHEREAS, based on financial and legal analysis and advice of its consultants, counsel and advisors, including application of established evaluation criteria, SPSA's Board on September 10, 2009, tentatively selected the Wheelabrator Offer under the WTE Procurement for possible acceptance following a public hearing and public comment; and

WHEREAS, SPSA held a public hearing on the proposals received relating to the WTE Procurement, including the Wheelabrator Offer, on September 23, 2009; and

WHEREAS, following due consideration of the Comprehensive Agreement, including consideration of the analysis and reports prepared by the Independent Consultant and other advisors, the Board has determined that it is in the best interests of SPSA and its member communities to approve and enter into the Comprehensive Agreement with Wheelabrator.

NOW THEREFORE BE IT RESOLVED, by the Board of SPSA as follows:

1. The Board rejects the ReEnergy Proposal and Wheelabrator All Asset Proposal and terminates the All Asset Procurement.

2. The Board hereby approves and adopts the Comprehensive Agreement, comprised of the Purchase and Sale Agreement and Service Agreement, relating to the sale and operation of SPSA's WTE Facilities to Wheelabrator, in substantially the form set forth in Exhibits A and B attached hereto.

3. The Board hereby authorizes and directs the Executive Director of SPSA, in the name of and on behalf of SPSA, to execute the Comprehensive Agreement with Wheelabrator, with such modifications as the Executive Director in his discretion shall approve, and to deliver the same, such execution and delivery conclusively to evidence the due authorization and approval thereof by SPSA.

4. The Board hereby authorizes and directs the Executive Director of SPSA, in the name and on behalf of SPSA, to do all such acts and prepare, execute and file all such documents as they deem necessary or desirable to carry out the intents and purposes of the foregoing resolutions.

5. The Board hereby authorizes and directs the Executive Director of SPSA, in the name and on behalf of SPSA, to execute and deliver, or cause to be executed and delivered, such additional or other agreements, documents, certificates and instruments, and to take any and all steps and to do all things that he may deem necessary or advisable in order to effect the purposes of each and all of the foregoing resolutions, and to pay any and all fees and expenses in connection therewith.

Adopted this 17 day of November, 2009

Attest: _____
Donald L. Williams, Chairman

Chairman Williams then said "Is that the motion you made?" and Mr. Barrett responded, "Yes, I believe it was." Chairman Williams then said "Is that the motion that was seconded" and Mr. Collins (CH) said that it was. Chairman Williams then asked if there was any further discussion and there being none called for a roll-call vote. The results of the roll call vote are as follows: Q: Mr. Collins, A: Yes; Q: Mr. Cheatham, A: Yes; Q: Mr. Clark, A: Yes; Q: Mr. Williams, A: Yes; Q: Mr. Oksman, A: Abstain; Q: Mr. Johnson; A: Yes; Q: Mr. Gardy, A: Yes; Q: Mr. Barrett, A: Yes. All present voting yes except Mr. Oksman-Portsmouth who abstained. Opposed none; motion carried by a majority (7 yes; 1 abstention) and recorded vote.

At this time, Chairman Williams called the Board's attention to the landfill gas update on the list for the closed session. He noted that we didn't have it; the Councilman from Suffolk was detained and couldn't be here but we could have that update now and called on Mr. Tony Thiel, General Counsel, to give it.

Mr. Thiel said two things had happened. Number one is that SPSA has retained a consultant to advise regarding the contract negotiations for an extension and expansion of the relationship with Suffolk Energy Partners regarding the operation of the landfill gas operations at the landfill and they are related to a proposal from Green Energy to build a co-generation facility. And the second thing that has happened is obviously that the Board today has adopted a resolution rejecting the ReEnergy proposal. One of the reasons for the holdup in pursuing the negotiations with Suffolk Energy Partners is that the ReEnergy proposal includes a purchase of the entire landfill including all of the gas out there and it would be impossible for SPSA to even continue negotiating an effort to extend or modify that energy system with Suffolk Energy Partners. And so with that being disposed of, we would be coming back before the Board after meeting with our consultant to discuss the advisability of entering into a longer term relationship and expanding that operation out there. With the consultant on board we are in a position to do that. You should know that we went through a PPEA process with this. There were no competing proposals and the only competitor who has put in a bid to assist SPSA in expanding those operations and extending the term of the operations is the current operator of the facility, Suffolk Energy Partners.

ITEM NO. 4: APPROVAL OF REPAYMENT AGREEMENT WITH CHESAPEAKE AND NORFOLK

Mr. Taylor said Mr. Thiel has been working with the City attorneys for Chesapeake and Norfolk and I believe he has had considerable contact with them and you have the documents in your package today that have been agreed to by them and now ready for execution. Mr. Thiel said these documents are kind of the end of the line for the CAO refinancing proposal. In the guarantee agreements and in the Chesapeake resolution, in Norfolk, it was a requirement that SPSA enter into an arrangement if the guarantee should ever get called the cities of Chesapeake and Norfolk require that SPSA enter into an arrangement for repaying any monies that had to be advanced. The terms are in there. The interest rate that would have to be paid is consistent with the interest rate that is being charged on the note that SPSA signed. And the series 36-month payment schedule was offered by both of the cities as being consistent with a 36-month repayment schedule that the City of Virginia Beach will enjoy beginning October next year. And we are asking for a motion that we approve these agreements and authorize the Executive Director to sign them on behalf of the Authority. Chairman Williams said "Do I hear a motion and then again do I hear a motion?" Mr. Cheatham (FR) made the motion to approve the repayment agreements with Chesapeake and Norfolk and authorizing the Executive Director to sign them on behalf of the Authority and it was seconded by Mr. Barnes (VB). Chairman Williams asked if there was any discussion and there being none called for a vote. All present voting yes except Mr. Oksman, Portsmouth, who voted in opposition. Motion was carried by a majority recorded vote.

ITEM NO. 5: FINANCIAL REPORTS AND PRESENTATION

Chairman Williams called on Ms. Liesl DeVary to give the financial reports. Ms. DeVary said "Chairman, members of the Board, I realize you just received your financial reports today because of the short timing, so certainly if you have any questions following your review of this, please contact me.

As of October 31, 2009 total revenues exceeded total expenditures for the fiscal year by \$6.8 million. We are continuing to see a reduction in the electrical sales revenue as mentioned to you last month as a result of the down time in the boiler and the carbon monoxide issue we have. Operating expenditures are under budget by approximately 6%. Cash balances remain healthy, at around \$22 million. We do not have any requested changes to the capital projects this month. We have spent \$1.9 million to date and have encumbrances of \$2.3 million.” Chairman Williams asked if there were any question. Mr. Collins (CH) said, “Bottom line again, are we positive or negative and if positive what is that number?” Ms. DeVary responded, “A little over \$6.8 million.” Mr. Collins then made a motion to accept the financial report and it was seconded by Mr. Gardy (SU). All present voting yes; opposed none; motion carried by a unanimous and recorded vote.

CONSENT AGENDA

The below-listed consent items were included in the agenda package and presented for approval. There being no questions on any of these items, Mr. Gardy (SU) made a motion to approve the Consent Agenda and it was seconded by Mr. Cheatham (FR). All present voting yes; opposed none; motion carried by a unanimous and recorded vote.

ITEM NO. 6 PRESENTATION OF THE MINUTES OF THE BOARD MEETING

ITEM NO. 7: CONTRACTS

- Boiler Feed Pump Rebuild (correct error in amount from previous month)
- Installation of air Cannons on Boilers
- Modification to Navy Waste Disposal Contract

INFORMATION ITEMS:

There were no Information Items.

ITEM NO. 8: MISCELLANEOUS ITEM(S)

There were no questions or discussion on any of the Miscellaneous Items.

OLD/NEW BUSINESS

Chairman Williams called Mr. Dick Cheliras, Director of the waste to energy facilities to the podium to give a report on the generator issue.

Mr. Cheliras, “Good morning, Mr. Chairman, ladies and gentlemen, Board. As we discussed at your last meeting and you asked me to come back and give you an update on the status of the casualty that we experienced to the #1 steam turbine generator at the power plant, I am here to do that and talk to you about the plan to repair that particular piece of equipment. As I indicated to you at that meeting, the problem that we experienced was a failure of the stator

windings. A couple of photographs to show you what we are talking about here. This in fact is one of the windings (referring to a photo in the PowerPoint presentation attached herein as Appendix C) and to put things in perspective since there is not a frame of reference here that is about a 4 by 4 item that you are looking at there. It is composed of laminated copper barge which are bonded together using an insulation material that is composed basically of asphalt and then wrapped in a synthetic asphalt impregnated material. You can see in that area right there (referring to the photo in the presentation) is where the arcing occurred in that particular item. This is another location in the generator again. Failure in this area right in here, and it's not real clear there. What caused that failure I will get to in a moment. But one thing I want to point out in this one, which is little clearer, you see some things that look like lines in the photograph here, that is some evidence of some cracking in the external insulation that actually led to the failure of the component or of the piece of equipment. The contributing factors to this, these pieces of equipment operate because of the generation of generation of power in them. At relatively high temperatures and they are fitted with cooling devices to keep the air that surrounds the rotor and the stator cool. We experienced a failure in one of these cooling devices and therefore resultant water intrusion into the generator end of the piece of equipment itself. And also the age of the equipment, and I will talk to that in just a moment as well.

And there is a third contributing factor that we think may have actually added some stress to the insulation here and that is vibration to the piece of equipment. We monitor vibration of the equipment over time and take these readings on a routine basis and we had started seeing some vibration in this particular unit not to the point where the requirement was to take the unit out of service but nevertheless something above and beyond what is normal operation.

I mentioned air box cooler failure. This is one of the cooling units that we pulled out in and in fact it is the cooler that failed. You can see right in there (pointing to a photograph in the PowerPoint). I show you this picture which is not real good one with the pallets in the background. Those are standard 4' by 4' shipping pallets to give you size perspective there. This is a close up of one of the failures itself. And that dark black area is a hole. Each of these tubes is 5/8" cooper nickel alloy and we suffered rupture of a couple of these tubes and that sprayed water into the unit. That's what we saw when I talk about water intrusion. The water intrusion, the cracking, and the temperatures, it is kind of like taking a hot liquid and throwing it into ice water and that's in essence part of what the insulation on the windings were exposed to.

I mentioned age as a potential factor. This is a graph that is taken out of the General Electric report that is noted in the subject line of that particular slide. That report was written by General Electric in 2004 on air-cooled generators, the air-cooled generators that they manufacture. Our generators are General Electric generators and fall into that category. And you see the bell curve there where they talk about age replacement. It peaks at 24 and 25 years. Our generators were manufactured in 1984, were put in service in 1987, so they fall right in the range of that peak. This particular report recommended replacement of the original insulation on these model generators with an upgraded type of insulation that General Electric has developed which in essence extends the service life. When this report was

received and reviewed it was elected at that time not to do that rewind replacement to forego the cost and continue operating the generator.

That in essence is what we have experienced and what I have deduced as the cause of the problem, so what's the impact. I mentioned to you last time when I spoke that we were able to continue to meet all of our contractual requirements, both with the Navy and other folks and to continue to provide the self-sustaining power we need to operate the facility without having to go on the outside and purchase it. But the major impact has been loss of revenue generation capability and I have given you 3 different scenarios here: The rated, the nominal and the minimum. The rated is what the maximum capacity of that particular piece of equipment. The nominal is defined as what we would see when I have four boilers in operation at peak delivery, and minimal is if I am operating at something less than that due to casualties of other pieces of equipment or due to a problem such as we are experiencing, the issues we are undergoing with attempting to keep our carbon monoxide emissions within regulatory standards right now. So in that range is what we are seeing on a daily loss of revenue as result of this particular unit being off line.

So what with are we going to do about it? We issued a request for proposal to get a repair service, a vendor to come in and take a look at this generator and provide four repair actions. The costs that you see outlined in this slide are those that were provided by the particular vendor that we have selected to be the vendor of choice in this case. This particular vendor is a vendor which has done work on these machines for us in the past and has done the seven year annual inspection twice and has a lot of experience in working with these.

The important thing about this particular slide, that bottom line figure that you see up there, \$2.2 million is inclusive of all the above items but we may or may not have to do all of those items. Task number one to start with is for \$209,000 would be step one and what that will do is involve what they term a high potential test which is a destructive type test. It will come in and test that generator and test the residual insulation on the windings on that generator. They think they might be able to repair it. If that's the case we will test and repair task one and not need several of those subsequent tasks. On the other hand if that testing determines that the generator cannot be repaired then we will proceed with the subsequent tasks you see outlined on there. That's the intended course of action so we will walk through that. It may or may not come up to that \$2.2 million bottom line. If we are lucky it will take us our 'nap' and if we are lucky we can do that repair, I haven't bought a new generator, I've bought us three to five years of life in that generator. We will still have to rewind it, and at that point in time we will replace the insulation with a new type of insulation. If we can get through these repairs, I can affect those repairs in about three weeks and have that generator back on line by mid-December and avoid a lot of those lost opportunities for revenue generation. On the other hand, if we have to walk clear through this, we're talking about 12 to 14 weeks. The big problem there being the replacement copper bars, these laminated copper bars that they talked about have to be specially manufactured. They are not something that are sitting on the shelf. We already checked that out; that would be required. So, not only would the cost be higher but the lost revenue would be higher as well.

Now where am I going to come up with that money? Well, my proposal is to reprogram some of the capital funds that I have in fiscal year '10 for other projects. Taking the total of the funds that you see there (referring to the PowerPoint presentation slide) and I have made the numbers match one slide to the other by the adjustment of the contingency amount that was on the previous slide for potential growth work. But, nevertheless, this is where I propose to come up with those funds. What we will do is, as I mentioned last time, we have contacted the insurance company, our casualty insurance company and another carrier that we have that pays for loss of business opportunity. I would not expect to get the total amount reimbursed. We have a \$500,000 deductible, but up to that point and then we would adjust funding as necessary. So my proposal to you this morning or recommendation to you is that you authorize us to proceed with the issuance of that contract as I have outlined and allow us to get the repair effort underway and I would be happy to answer any questions.

Chairman Williams asked if there were any questions of Mr. Cheliras and Mr. Gardy (SU) said, "You need to get it fixed, right?" Mr. Cheliras responded, "Yes, sir, bottom line is if you want me to make money you have to get it fixed."

Mr. Collins (CH) said, "My question would be since we faced this type of failure in this generating unit, where are we in ascertaining the cooler structural integrity in the remaining units?" Mr. Cheliras said he takes the generators down every six months to clean the condenser and the air box coolers. When I have them down and I do that cleaning, we do a hydrostatic test. We put water pressure on the tubes to guard against just this kind of thing. I am three months away from the cycle and this particular one we had just taken it down for cleaning and we had restored it to service and it been on line for about three and a half hours when the casualty occurred. The particular unit was hydrostatically tested. The hydrostatic test didn't indicate there was a problem but it ruptured subsequent to that so there was a weak spot in the tube. About the best I can do to answer your question is just what we are doing as far as testing them, routinely cleaning and testing them. If something like this were to occur in another unit is that possible yes; is it likely, no. It is highly unlikely that you see a rupture following a test that quickly. What that says to me there was probably a deficiency in the tube someplace that was weakened during the test and then it let go under operating pressure.

Mr. Collins said his concern is that if we do the same thing we get the same results. I am concerned that the significance of the remaining units that we probably need to identify some other type of testing or inspection, hydrostatic testing means simply you put pressure and see if it leaks. Something else obviously needs to be done at this stage; the equipment is old. I am acknowledging that and am aware of that and maybe some type of visual scoping or some water chemistry type of folks since probably the degradation was on the water sides of those coolers. To that end, with that suggestion, I move approval of the transfers. The motion was seconded by Mr. Oksman (PO). All present voting yes; opposed none; motion carried by a unanimous and recorded vote.

Mr. Collins said before we adjourn, he would like for Mr. Taylor I know he has been contacted by a number of people, including myself and we discussed some issues around the VRA, if he could share where we are in the contact and type of information that's been shared with VRA and us moving forward with our proposal. Mr. Taylor said we met with VRA last

Tuesday and VRA at that particular time had had our proposal. It was presented to them on the date requested of October 23rd. Between October 23rd and November 10th, VRA had not contacted us regarding any request for additional information or had not requested a meeting with us where we had said we would be glad to meet with them at any particular time. Since then the meeting that was held on the 10th, they have provided us with a list of additional information they would like to have so they could view that information and hopefully be ready for either the December or the January Board meeting. And we have set as a goal to have that information to them by the end of this week if at all possible. If not it would be the first part of next week but before Thanksgiving for sure.

Mr. Harrell (CH) said he had one quick question before we adjourn. As you know, the City of Chesapeake is moving forward with the 'Big Bin' recycling. We have been working with SPSA staff on the little bins and I think based on our earlier communications we were told the folks could recycle those bins. It seems there might be a change in that. Is there some action needed by the Board? Mr. Taylor responded that we will have that a resolution for the Board to consider at the December meeting so then we can take that resolution and provide it to VRA. So we are still trying to work with VRA to find out whether or not and when they will provide us with the okay to do those types of things.

Mr. Harrell said Chesapeake was going to obviously work with SPSA to return the bins or recycle them through the process or whatever the case. I just wanted to make sure weren't any issues we had to explore. Mr. Taylor said there were not.

ADJOURNMENT

There being no further business to come before this Board of Directors, Chairman Williams adjourned the meeting.

Rowland L. Taylor
Executive Director

Submitted by: Lou Ann Ivory
Secretary, SPSA Board of Director