

# KEYNOTE ADDRESS TO MEMBERS

## *attending SECO's Annual Meeting*

Saturday, March 29, 2008

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*James P. Duncan, Chief Executive Officer*



Good morning and let me also welcome you to the 70th edition of our Annual Meeting of Members.

As I always share with you, it's great to spend a pleasant Saturday morning in March with several thousand of our closest friends.

Before we go any further, I would like to ask any active duty military, current reservists, and all veterans to stand and be recognized.

Thank you all for your past and current service to help preserve the freedom that we unfortunately tend to take for granted.

This Annual Meeting is your opportunity to see what's new at your Cooperative and to interact with many of the employees who work so hard on your behalf.

Likewise, it gives our employees a chance to meet with you, brag about our latest technological innovations, and to address any needs that you may have.

Frankly, we truly do look forward to this event and enjoy meeting with you.

And, while I'm on that subject, let me express my appreciation to all of the employees who work so hard to get this facility set up for you, to prepare and serve the refreshments, and to answer your questions in the Tech Tent.

They do a great job in preparing for and conducting this meeting and I sincerely appreciate their efforts.

As I glance around the audience, I can assume that most of you are old enough to remember the Clint Eastwood movie, *"The Good, The Bad, and The Ugly."*

Today my comments will cover those categories but in a different order.

I want to begin with the "Bad" followed by the "Ugly" and then conclude with the "Good."

And, as I begin the remarks I want to caveat them by saying that neither SECO nor I am anti-green, anti-Governor Crist, or anti-any other group of politicians.

We simply have some concerns.

So, with that as a caveat, let's start with the "Bad" — the status of electric energy in Florida and, in fact, in the nation.

Some of my next few comments will come from the Annual Meeting address that Mr. Tim Woodbury, the CEO of Seminole Electric, made earlier this month at Seminole's annual meeting.

*Who would have expected that the chemical compound that humans exhale and which is required for sustainment of life would be treated like a pollutant?*

He's talking about carbon dioxide or CO<sub>2</sub>.

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*Who would have expected at a time when this nation's security is being challenged by fanatics and madmen that we would, as a nation, move to abandon our own plentiful coal resources and risk greater dependencies on those who seek to destroy us?*

*Who would have expected, at a time when this nation is struggling to compete in the global marketplace, that we would tie one hand behind our back by imposing additional economic hardship on consumers and producers by dramatically and artificially raising the cost of energy — the very thing which drives this country's economic engine.*

*All of this mania about global warming will have two impacts on Florida's and the nation's electric consumers — dramatically higher prices and significantly less reliable service.*

*And if the prospects for carbon taxes or carbon caps related to global warming were not enough, the expected market conditions in oil, natural gas, coal and related transportation markets are creating significant pressure on producers.*

That completes my acknowledged plagiarism of Mr. Woodbury's comments and it certainly sets the stage for the remainder of my comments.

The general topic of global warming has become extremely emotional for a number of people and, in fact, is almost like religion for many.

Due to the fervor created by the media and many politicians, the public has generally accepted as fact that CO<sub>2</sub> — carbon dioxide — is the primary greenhouse gas causing this phenomenon and that the generation of electricity by coal is the main culprit.

It has become so widespread that any scientist who dares to dissent from these theories is deemed as unworthy of consideration — although there is certainly a place for reasonable debate.

Our atmosphere is comprised of 78% nitrogen, 21% oxygen, .9% argon and .1% greenhouse gases.

The fact is that man-made greenhouse gas emissions account for less than one-half of one percent of all global greenhouse gas emissions.

Actually, it is .054 percent of the GHG to be precise.

Also, please keep in mind that that is the total from all manmade sources with electric generation being a portion of that very small amount. Volcanos emit more GHG than man. Oceans are a major source of GHG. Unfortunately, you won't see or hear any of this in Al Gore's so called documentary "*An Inconvenient Truth*" or on the major media.

Nevertheless, last year Governor Crist adopted an extremely aggressive approach to the matter when he issued three executive orders that seek to radically reduce emissions in the State by, in our opinion, dramatically increasing costs and reducing reliability.

He effectively caused plans for four coal-fired plants in Florida to be discontinued by the investor-owned utilities in Florida.

In addition, a fifth state-of-the-art, clean-coal technology plant proposed by our power supplier, Seminole Electric, was also denied by the State in spite of the fact that it was essentially 95 percent approved by the former Governor's administration — Governor Jeb Bush.

Seminole had included in the plant design every known environmental protection and had even reached agreement with the Sierra Club on plans for the plant.

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Regardless, it was denied and Seminole is now appealing the decision in the courts wasting valuable time and financial resources in the process.

Collectively, these five plants would have produced 4,642 million watts of electricity which is enough to power 3 million Florida homes.

While we are certainly in a bit of a housing slow-down, all projections are that Florida will continue to grow and energy demands will likewise grow.

Trying to replace the plants with more natural gas generation is simply not the solution for a number of reasons.

To date, across the country, coal supplies roughly 50 percent of the nation's electricity at about one-third the cost of other types of fuel.

In Florida, coal accounts for only 30 percent of electricity.

So...

We already have an over-reliance on costly natural gas-fired plants.

For some time, state officials have stressed that Florida is far too dependent on natural gas as a fuel source and have stressed the need for fuel diversity.

The obvious reasons are that the price of natural gas is extremely volatile and quite high — I'll talk about that during the "Ugly" part of this presentation.

Additionally, the supply of natural gas can be cut off entirely by hurricanes in the Gulf of Mexico.

For example, during the Hurricanes of 2004 we were extremely close to rotating black-outs because the supply of natural gas from the Gulf of Mexico had been significantly disrupted.

There's a lot of lip service paid to increased use of renewables and, certainly, that needs to be a portion of our generation mix.

In fact, although coal and natural gas make up most of the generating mix at Seminole, roughly 4 percent of their present generation comes from renewables and they are continually looking for additional renewable sources.

Four percent is the most of any generating utility in Florida.

Proponents of extreme measures to reduce the use of clean-coal generation tout the need to use wind and solar to replace that generation.

Hopefully, that will become an alternative in the future, but the reality is that today the technology is simply not available for such large generating sources.

Currently, the cost for such generation is extremely high, the availability of the power is unreliable, and the land requirements for such facilities are staggering.

For example, Seminole's proposed 700 megawatt pulverized coal plant would occupy roughly 700 acres.

By contrast, a solar photovoltaic system of 700 megawatts would require nearly 9,800 acres of solar panels.

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And...

Currently, there are no solar installations anywhere in the world that are near that size.

Wind power is also often suggested and it is used somewhat successfully in other parts of the country.

Wind in Florida has been described as marginal for generating electricity and, in those cases, only along the eastern coast.

The land requirements for a 700 megawatt wind farm are even more staggering — 160,000 acres and, again, only producing electricity when the wind is blowing sufficiently.

Can you imagine the opposition that would arise if an attempt was made to use that much acreage along the East Coast for wind turbines?

In fact, FPL has now cancelled plans for 9 wind turbines on Hutchinson Island due to public outcry over noise, visual pollution, etc.

It's another case of the NIMBY syndrome — Not In My Backyard.

There is also ongoing research regarding harnessing the energy of wave and tidal flows and, perhaps, the Gulf Stream. But, that is still a long way off.

As you've read in the press recently, FP&L and Progress Energy are both exploring the nuclear option and likely will move ahead.

Seminole is actively working with both to buy a share.

As you've also read, the costs of the facilities are staggering and the timeframe to design, permit, and build them is quite long.

Hopefully, if that is the direction that our industry and the nation chooses to go, the US government will work to develop a standardized plant design that can be more easily permitted and built.

This has worked in France where a very high portion of their electricity is generated by nuclear.

For us, for the near term, coal is what has kept energy reasonably affordable and we need to use it to bridge the gap until other technologies become feasible on a larger basis.

The reasons are pretty clear:

- We are the Saudi Arabia of coal.
- We have a 250-year or more supply of coal.
- Clean-coal technology is well developed and improving dramatically.
- Coal carbon capture demonstration systems are under heavy review, but are very expensive.

One of the most ironic factors in the entire coal and carbon emissions debacle is the fact that we are rapidly becoming a major coal exporter.

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That's right, while we are blocking the use of a valuable natural resource domestically, we are exporting dramatic quantities of coal to China, India, and others for use in their power plants which have significantly less environmental protection equipment than our US plants have.

Currently, China is bringing on one 500 megawatt coal-fired power plant a week and has plans to do so until at least 2020.

Obviously, the emissions from those plants do not stop at the Chinese borders.

Wrecking Florida's economy and endangering our power supply is simply not the answer to a worldwide issue.

After all, it is called "global warming," not "Florida warming" and all nations, including China and India, must be a part of the solution.

Now let's talk about the "Ugly."

A recent MIT study found that emission restrictions similar to those supported by the Governor can cause utility bills to go up by 25 to 50 percent.

Other estimates are even higher. The Washington Post recently projected that electric costs per home, per month would increase between \$225 and \$335. That's significantly more than many of you pay in total today.

Much closer to home and much more immediate are the projections of the impact of rising natural gas prices on our electric bills.

Based upon the futures prices at the New York Mercantile Exchange on March 12, the average price for natural gas for 2008 is approximately \$9.76 per decatherm. (million BTUs)

By contrast, Seminole's budgeted cost for natural gas was \$8.14 per decatherm.

To put this in numbers we can all understand, this means that unless natural gas prices go down dramatically, we will all see an increase of approximately \$5 per thousand kilowatt hours in our electric bills beginning as soon as July 1.

That and the potential for supply disruptions are vivid examples of why we need to avoid building additional natural gas-fired plants.

We are also concerned about the reliability impacts of the canceled coal-fire plants.

The longer we go without adding additional generation, the tighter our reserve margins become.

We are approaching the point that if one or two major power plants should go down here in Florida during a period of peak demand or during a hurricane, we may well experience brown-outs or rotating black-outs.

Throughout 2007, our State issued several capacity advisories and alerts.

Simply stated, that means that if the largest generating unit on line at the time had suddenly gone out of service unexpectedly, there was not sufficient back-up to replace it.

That's the stark reality of the situation and we believe that we need a rational, national thoughtful response to our looming energy crisis here in Florida and, in fact, across the nation.

That's right, it's not just Florida.

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At the national level it seems that our senators and congressmen and women are trying to out-green each other in the race to create legislation that will require unrealistic reductions in greenhouse gas emissions and undoable requirements for percentages of renewable energy.

But, of course, they have other important issues to deal with like which baseball players used steroids.

With all due respect, it is very easy to issue executive orders and legislation with unrealistic requirements.

It's quite another thing for the electric industry which prides itself on reliability and affordable rates to implement changes that are unsupported by current technology.

The elected officials are counting on the fact that when the prices go up dramatically and reliability suffers, you won't call them.

You'll call us and that's part of why I am very disappointed in their actions.

But enough of that, let's move on and talk about the "Good."

For us, the "Good" is the results of our 2007 Member Satisfaction Survey that was conducted during November of last year.

We are conducting these telephone surveys annually to a statistically selected sample of our members and, if you participated, thank you for taking the time.

Once again, we got extremely good results from our members.

On a scale of 1 to 10 with 10 being very satisfied, 70 percent of you gave us either a 9 or a 10.

On a scale of 1 to 5 with 5 being excellent, you gave us the following responses:

Having friendly, courteous employees:	73 percent = 5; 21 percent = 4 (94%)
Having highly trained professional employees:	65 percent = 5; 23 percent = 4 (88%)
Resolving issues or problems:	61 percent = 5; 26 percent = 4 (87%)
And, being easy to reach:	59 percent = 5; 22 percent = 4 (81%)

Continuing with the 1 to 5 scale, you gave us the following additional input:

Minimizing longer outages:	59 percent = 5; 29 percent = 4 (88%)
Restoring power quickly after an outage:	59 percent = 5; 28 percent = 4 (87%)
Minimizing blinks and momentary outages:	58 percent = 5; 27 percent = 4 (85%)
Responding quickly to service requests:	58 percent = 5; 26 percent = 4 (84%)
Providing consistent voltage:	56 percent = 5; 30 percent = 4 (86%)
Keeping members informed on status of outages:	44 percent = 5; 24 percent = 4 (64%)

Obviously, that last category is very challenging.

When you are without your electric power, our options for communicating with you become very challenging.

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We have implemented a very user-friendly website called “*SECOSTormCenter.com*” that provides almost instantaneous updates on the status of outages.

Unfortunately, you have to have Internet access to get that information. But, we will continue working on this one.

You also gave us equally strong ratings on the following categories:

- Supporting local community;
- Environmental concern;
- Communicating and keeping members informed;
- Advocating for co-op member rights;
- Having consumers’ best interest at heart.

So that’s a good overview of the results that you provided in that survey.

One of the key outputs of the survey is an index called the American Customer Satisfaction Index or the ACSI score.

For 2007, our ACSI score was 83, which ranks in the upper echelon of all service providers.

For example, all Touchstone Energy Cooperatives® collectively average 80 and the electric industry as a whole averages 72.

So, we are certainly proud of and thankful for our score of 83.

So that, Ladies and Gentlemen, is the “Bad,” the “Ugly,” and the “Good.”

And I think you can probably understand why I chose to reverse the order.

I didn’t really want to end this morning’s comments with the “Ugly.”

So, in closing, — I know that’s the word you’ve been waiting for — let me just emphasize that it is a privilege and an honor to work with our Board of Trustees and our tremendous employee team to deal with the challenges of providing reliable electric service and trying to keep the cost affordable in an extremely challenging environment.

Collectively, this team makes my job tremendously satisfying and I sincerely appreciate the opportunity.

I want to thank you for your attention this morning and certainly hope that you enjoy the rest of your morning with us.

And now, before I attempt to answer any of your questions in the Old Business/New Business questions and answer segment of our program, let me again suggest some ground rules.

As usual, we have a very large audience again this morning and I request that if you have a question relating to your specific individual electric service that you hold those questions for discussion with one of our Staff Members.

All of my direct report departmental directors are located to my right next to the stage and will be pleased to discuss with you and to attempt to resolve your individual concerns.

They, and I, will remain there for at least 30 minutes after the meeting is officially adjourned during the prize drawings.

So with that request, are there any general questions or comments that you want to share with us?