

AGENDA ITEM 2-b

MINUTES OF REGULAR MEETING OF THE UTILITIES COMMISSION, CITY OF NEW SMYRNA BEACH, FLORIDA, HELD MONDAY, JANUARY 22, 2007, AT 6:00 P.M., AT 200 CANAL STREET, NEW SMYRNA BEACH, FLORIDA

Chairman Para requested Commissioner Allen to lead in an invocation and Mr. Alex Kish to lead in the Pledge of Allegiance.

Chairman Para then asked for roll call to be taken with all of the Commissioners present as follows:

Commissioner Jeanne K. Diesen
Commissioner William E. Hall
Chairman Kevin J. Para
Commissioner Richard L. Spangler
Commissioner Walter Allen III

Others in attendance were as follows: R. Rodi, General Manager/ CEO; L. Klinkenberg, Director of Finance; R. Mitchum, Director of Electric Operations; T. Beyrle, Director of System Ops. & Generation; J. White, Director of Engineering; D. Hoover, Director of Water/ Wastewater; B. Mudge, Director of Human Resources; C. Montgomery, Acting Director of I.T.; E. Mahle, Public Information Manager; R. Wetherington, Materials Manager; R. Zani, Development Specialist; D. Simmons, Executive Asst./Recording Secretary; and additional U.C. personnel; Bill Preston, Interim U.C. Legal Counsel; Alex Kish and Brad Douglas, Representatives of Brent Millikan & Co., P.A.; Vicky Koren, Reporter for the NEWS JOURNAL; Bob Tolley, Bill Rogers, and an unidentified man, members of the public.

(1) Agenda Changes, Additions and Deletions:

Chairman Para asked if there were any agenda changes, additions and deletions.

Mr. Rodi stated I have two items I would like to discuss in Possible Other Business. One of them relates to the public participation request that was subsequently dropped and then the other one relates to some update water information.

Chairman Para stated okay, we'll just bring that up in other business.

(2) Approval of Consent Items:

Chairman Para stated next up is the approval of consent items.

Commissioner Hall made a motion to approve the consent items; item 2-a. Minutes of Regular U.C. Meeting Held 12-18-06, and item 2-b. Minutes of U.C. Workshop Meeting Held 1-4-07, approve both as submitted; item 2-c. Bid No. 08-06 – Southern Yellow Pine Utility Poles – Contract Extension – 1st Renewal, awarded P.O. No. 3888 in the amount of \$104,673.60 to Ace Pole Company, Inc. for the 2nd year extension for an annual contract; item 2-d. Sale of Surplus Property – Over \$25,000 by Sealed Bids, approved formal declaration of the Skystream Head End System and 5G Wireless equipment as surplus and approval of disposal of the surplus equipment through sealed bids; item 2-e. Contract for Bad Debt Collection, approved award to

(2) Approval of Consent Items (cont.):

Online Information Services for Bad Debt Collections for a flat rate fee of 25%; item 2-f. Contract to Provide Document Management Services, awarded P.O. No. 3916 to Image One for the following amounts: year one \$96,134, year two \$9,977, and year 3 \$10,273, for a total cost of \$123,484; item 2-g. U.C. Website Policy and Procedures, ratified the policy as submitted for the new U.C. website; 2-h. Bio-Solids Feasibility Study, no action, information only; item 2-i. Amendment No. 1 to Developer's Agreement for Gold Rock Park, approved this amendment as submitted and authorized the General Manager/CEO to execute; and item 2-j. Bid No. 04-07 – Bullwheel Tensioner for Electric Department, awarded P.O. No. 3925 in the amount of \$39,700 to Sherman & Reilly, Inc., the most qualified, responsive, and responsible bidder. Commissioner Allen seconded this motion and it passed unanimously on a roll call vote.

(3) Public Participation:

There was no public participation at this time.

Note – Item 3-a. regarding Request to Appear for Further Consideration of Infrastructure Fee Reconciliation was pulled by requestor, Jerry Johnson, Sr., prior to the meeting, and additionally had requested to postpone until February.

(4) General Manager's Report:

(4-a) Monthly Summary Report for December, 2006:

Chairman Para directed this item to Mr. Rodi.

Mr. Rodi stated we will start with the financials.

(4-b) Budget Summary through November, 2006:

Ms. Klinkenberg stated for November we're doing pretty good, we're showing a \$784,000 variance from budget for actual. The majority of that is due to the O&M expenses being greatly curtailed, I guess. Our ratio for the month was 2.41%, which we're showing great improvement in that from month to month. I believe we started out at just 2.0% September 30th.

Chairman Para then confirmed there were no questions for Ms. Klinkenberg at this time.

(4-c) Consumer Conservation Programs:

Mr. Rodi stated as a follow-on to our workshop, one of the items we started to detail in Energy-Wise is conservation and I've asked Ms. Ellen Mahle to give us a brief presentation on some conservation measures that obviously were in the queue. But I think it's appropriate to take the time just to publicly shed some light on it and we'll go from there.

Chairman Para then commented to Ms. Mahle, we like the slide shows.

(4-c) Consumer Conservation Programs (cont.):

Ms. Mahle stated well, it's not too fancy but it gets the information and stated it's very fortuitous that the Commission's decided through the workshops that you all had over the past two weeks that you wanted to urge conservation because we had been pulling together several of these programs already and that's how we're able to bring you these suggestions tonight. She stated these are pilot programs that staff is recommending adoption of on a trial basis to see what the demand is and they're real simple.

Ms. Mahle started her presentation by stating the goal is to educate our consumers about reducing electric usage in the homes. It's good for all of us, it means they can lower their individual bills but it also keeps the general demand in our community low for energy, and then as you know, it reduces the cost of buying electricity which saves us all money.

Ms. Mahle stated there are three elements that we're recommending, one of them is community based training, target some of our lower income areas and distribute energy-wise kits. These are pre-packaged products that consist of a CFL (compact florescent light) , low flow showerheads, thermostat setting cards, etc., in conjunction with community based conservation training. She stated usage both before and after the program is tracked to measure the average savings by participants. We would do a pilot program of about 100 participants in two or more conservation training sessions to be held at local community centers. The cost per kit, we have about \$60, this is the cost that we've been quoted, and we would also need either an employee or contractor to do some sort of training after hours, so that's an approximation cost. The kits look like that (slide was a picture of the kit), that's just pulled off their website, and the distributor said he could specialize the kit to some degree but without actually conducting a pilot, I'm not sure how we would know what the demand for different products would be, so we're going to go with the standard kit that you see here. She stated the distributor is sending a sample, unfortunately it didn't arrive in time but we'll have a sample to look at. She added that's the website (www.resourceactionprograms.org) by the way, if you want to look at that.

Ms. Mahle stated the second part of the conservation program that we are suggesting is the CFL buy-down program with Wal-Mart; the manager of Wal-Mart on S.R. 44 has tentatively agreed to this. I don't know if you all are aware but as a policy the Wal-Mart Corporation has pledged to endorse and promote the sell of compact florescent light bulbs, they've agreed to a certain amount of shelf space, etc. It was on the Today show is where I caught it, probably two months ago, so this is very lucky that we're able to work with Wal-Mart on this. We would, as an organization, contribute a set dollar amount and that would go toward the cost of the consumer buying the bulb. If the vendor and Wal-Mart wanted to set the price at \$1.50 per bulb, we could put in a flat \$1.00 per bulb and the consumer would pay a cost of \$.50 per bulb at the register. We need to set a price for it because when it's free, the consumer mind is that it's not worth as much, so you need to charge them something, and \$.50 is a pretty good deal for a CFL. We could promote the event through direct mail, our bill inserts, newspaper and website advertisements. We would do a coupon so that we would make sure that it's our customers that go to Wal-Mart and get the bulbs. We could conduct the event over a specific weekend, in late March, early April, when Bike Week and things have slowed down a little bit. In return Wal-Mart would secure a CFL vendor representative who could explain the product better and operate a booth at the store on a given weekend. Wal-Mart's manager's name is Bob Morrison and I

(4-c) Consumer Conservation Programs (cont.):

just wrote a letter explaining what you see here to him because he said that in the end of January he's meeting with the vendors in Kansas City, so being able to bring the idea to them might get us a little more CFL buying power.

Ms. Mahle stated the third idea would be rebate programs. We would have three pilot rebate programs modeled after GRU's (Gainesville Regional Utilities) successful programs. We could adopt their specifications as our guidelines for the pilot program. For example, we could offer residential rebates, 50 rebates of \$75 each for the purchase of a new, more efficient refrigerator, 20 rebates for insulation up to \$375, insulation for residences or small businesses, and 50 central a/c maintenance rebates of \$55 for the inspection and maintenance of central a/c units. The maximum payout for that program, if it was completely utilized, would be \$14,000.

Ms. Mahle stated the representatives from GRU were very happy to share their ideas with us. They offered a tour and meeting of their facilities and how they run their rebate programs. The a/c maintenance rebate was one of their most successful, a very, very high demand for that. The other one is duct repair that we could try. These other two are relatively new for them, the refrigerator and the insulation but they did it upon demand. I picked these because they represent three different areas, maintenance, installation, and appliance, and I think they would be relatively easy to track.

Ms. Mahle stated the rebate program promotion offers several opportunities for us as an organization. We could work with HVAC (heating, ventilation and air conditioning) contractors to promote the programs. GRU said that their contractors, their local contractors are some of their best promoters of these programs because they recognize the opportunity for their customers. Home improvement and appliance stores may be willing to partner with us in offering some sort of matching incentive. GRU said that their best marketing has been through direct mail for these programs. They said that they conduct contractors' workshops, which are a good way to get some feedback as far as what our customers need in the community. Interestingly he said one of the things the contractors said at the workshops was that they were worried about people taking advantage of the customers getting the rebates, getting them to do something without, for example, cleaning the ducts or installing this much installation versus this much, they were the ones who asked for specific guidelines and regulations set up. So we could do something with the vendors and with the contractors, and if they wanted to be a participating contractor with us in these rebate programs, they would have to sign some sort of agreement to follow the guidelines and be a conscientious contractor in the community.

Ms. Mahle stated one of the things that I was excited to be able to share with other utilities is the success of our load management program, it's one of the oldest. GRU for example doesn't have a load management program, they were asking us about ours. We have 10% of our customer base on it, about 2,300 customers and we use it on average 12 times in the winter, 24 times in the summer, and it represents, I got this number from Mr. Beyrle so I want to make sure I'm right, 4 to 5 MW in savings every year.

Mr. Beyrle indicated that was correct.

(4-c) Consumer Conservation Programs (cont.):

Ms. Mahle continued by stating and if we pay a maximum of \$7.50 per month per customer, that's about \$207,000 a year for 4 to 5 MW of peak usage.

Commissioner Allen stated I have a question, that 4 to 5 MW's, he stated to Mr. Beyrle, is that the time you're managing or is that total figures.

Mr. Beyrle stated at the time.

Commissioner Allen stated okay, that's a lot different than just the year.

Ms. Mahle continued by stating for example GRU just agreed to \$30 million for 5 MW generating plant, so this is a substantial savings for us not having to buy the peak power at that time.

Chairman Para asked what's the \$30 million for 5 MW, what kind of plant was that?

Ms. Mahle stated my understanding, Mr. Rodi, is that it's a natural gas plant at Shands?

Mr. Rodi stated it's a combination heat and electric power plant with a 5 MW gas turbine, it's at the Shands Hospital; it does more than just electricity, it's a heat source.

Chairman Para confirmed this plant had chillers.

Ms. Mahle stated some ideas going forward for conservation programs; I participated on Thursday I think it was, with the Florida Municipal Energy Efficiency Committee which is made up of representatives from several other municipal utilities around the state to share ideas about conservation and buying power. In October 2007, we're planning a state-wide municipal utility CFL program, which would tie in with the Public Power Week, and we should get some pretty good state-wide coverage for that. We can expand the program to include duct leak repair, visit GRU, and expand these to water conservation, expand the pilot to water conservation.

Ms. Mahle stated but of course it always comes down to the money. The total cost of this pilot program that you've seen tonight is about \$25,200 and it's available this year, we have it in our consumer services expense budget. But you know we're going to be a victim of our own success, if this works well they'll have to be more money, and/or personnel and budgeted time for next year. And demand side management can be difficult quantifying the savings, it works real well from a public interest standpoint, but as far as savings it's hard to quantify that. She concluded by stating that's all I've got tonight.

Chairman Para then stated Commissioner Spangler mentioned and I think Commissioner Allen did too, a meter that tells you what time of day and how much it is costing to run that meter.

Mr. Rodi stated there are a number of them out there but they're dealing with real time pricing and generally what you have to do is be able to program that meter for what Mr. Beyrle for

(4-c) Consumer Conservation Programs (cont.):

example would be buying power during peak periods and be able to have communication with it. There are a number of them out there but they do provide for the capability for someone to not use power based upon what the actual costs are, so it would take a whole rate structure that we currently don't have, but that's the beginning of it, and added they're electronic base meters.

Commissioner Allen stated it takes a fairly sophisticated EMS system too.

Chairman Para stated so we don't have the infrastructure to support it?

Mr. Rodi not currently, that's a few steps down the road.

Commissioner Allen commented something to look towards though.

Commissioner Hall then stated to Ms. Mahle, on one of your slides you mentioned going to a low income community, have you already selected the areas. I think one of the questions that we need to decide, or one of the issues that we need to decide is can a relative of a Commissioner or a U.C. employee be involved in a pilot program.

Mr. Rodi stated with the conflict of interest statement you're referring to.

Commissioner Hall stated yes.

Chairman Para stated I would say we probably couldn't be, right.

Mr. Rodi stated no, usually not.

Chairman Para stated that's what I was thinking, it would probably have to be no family members, but it's a good point Commissioner Hall, to make a public address out of that. Am I right, that would be the best way?

Commissioner Hall jokingly commented so I can't get free insulation for my brother.

Commissioner Spangler then stated these programs look to me like jump starts.

Ms. Mahle stated they are.

Commissioner Spangler stated they're just there for public awareness and I'm sure lots of Utilities Commission families when they see what their neighbors are saving will do it without the rebate because it's still going to pay, it's just to get the idea out there, and I think its an excellent idea.

Commissioner Hall stated to Commissioner Spangler, you're a contractor, how often, if you have the blown in insulation in the attic, are you to add to it, every ten years, every five years, I've heard different opinions from different contractors.

(4-c) Consumer Conservation Programs (cont.):

Commissioner Spangler stated back when they were grinding up newspapers and putting that in there, that didn't have a life more than 50% after ten years, but these new blown in fiberglass insulations that have the little pellets in them, I don't think they ever really shrink, I don't think it's an issue any more.

Commissioner Hall stated I did it this past summer and immediately my bill dropped approximately \$30 and it was not because of the weather or me setting the thermostat up.

Commissioner Spangler stated the great heat loss is always through the ceilings and the next one is the windows and doors, so yes, you did the right thing.

Chairman Para stated to Ms. Mahle excellent program, and to Mr. Rodi good start.

Mr. Rodi stated there's another aspect to this and I just want to publicly air it and it relates to some of our resolutions that say we do not provide free services. I don't see this kind of program to be a part of that, so I wanted to publicly put it out there because these are incentives and rebates, it's not a free program.

Chairman Para stated I think City Commissioner Richenberg and City Commissioner Plaskett both really said that well, is that we need to provide some incentives and not free, so I think that's a good response.

Commissioner Spangler stated have we responded that quickly or were we already doing that when they said that.

Chairman Para stated well it sounds to me like they're already doing it.

Commissioner Spangler stated I think so.

Chairman Para continued by stating so I think it's a culmination of everyone's on the same page at the same time, and I think you said you've been at this two months already. I think we're all kind of getting here at the same time, which is a good thing, unity, I like that.

Commissioner Diesen stated we need a motion don't we.

Mr. Rodi stated just a motion if you will allow us to move forward with this pilot.

Commissioner Diesen stated I'll make a motion to that effect, that we move forward with this pilot (pilot conservation program at an approximate total cost of \$25,200 for this fiscal year). Commissioner Spangler seconded this motion and it passed unanimously on a roll call vote.

(4-d) Definitions of RFP, RSQ, and RFI:

Mr. Rodi stated as part of the educational process, we are now beginning to really get into our policies and procedures. We have a very talented procurement manager and part of what's

(4-d) Definitions of RFP, RSQ, and RFI (cont.):

occurring very quietly is a total revision to all of our procurement procedures and policies; you have a part of it that was accompanying your book this month. Since later on in the meeting we're going to be talking about a particular initiative with Mr. Beyrle, we thought it might be appropriate just to give a high level overview and with that I've asked Mr. Russ Wetherington to give some broad overview for you and then you may ask questions if you choose to, obviously. He then stated to Mr. Wetherington, so with that do you want to give us a few minutes of the "R's".

Mr. Wetherington addressed the Commission and stated I know in the past meetings you have thrown out a lot of "R's" and there's a lot of procurement knowledge or definitions when you discuss action that you have to take during the procurement process. What I did is try to highlight the two most important ones which are RFP's, Request for Proposals, and RSQ's, Request for Statement of Qualifications. Those are the two primary ones that we use here at the Utilities Commission. The one that's a lot of times is thrown out as RFI, which could be Request for Information, Request for Interest, but that is just information only that you use for further, for an RFP or an RSQ. The attempt was the four sections that you received in your package was part of what I've been working on for the last six months, revamping the whole Purchasing Policies and Procedures, which I had finalized a draft so when Mr. Rodi asked me to put it in, I said well I've already got it, all I have to do is attach it. What I really wanted to do is open up in case you had any further questions because the procurement process is basically the same, if I'm here at the Utilities Commission, at the county or the city, it's just how do you actually adhere to it and make the policies and procedures do the best work with what you want done.

Chairman Para stated when Mr. Rodi came here that was one of the things that he and I had a conversation about early on and we spoke about that today, we needed to make sure we had a good overlapping, and I think you've done a fairly good job of that. I believe most of this is kind of boiler plate is what you just said, correct.

Mr. Wetherington stated yes sir, on how you do and what you've got to do, you've just got to make sure your procedures are in place to make sure that we adhere to them. That's what I've done, the first four sections that you see here are the sections that adhere to the procurement process of what we need to issue in order to get the right contract when we award it.

Chairman Para stated yes, because its one thing to violate a policy but its another not to even have a policy to begin with.

Commissioner Hall asked Mr. Wetherington if he ever sees the U.C. using sole source very often, because I come from an arena where everybody tried to pull that one on us.

Mr. Wetherington stated we do have it in our policies but one of the things that you have to look at when you use a sole source the first time, with technology changing so much, within five years you need to revisit that to make sure you don't use it as a catch all. That's one of the things in the policies and procedures that I have to put in there, that every five years we revisit in case there is technology that has revamped the equipment or changed the process. So that is a common, Commissioner Hall, that is something that people lean on more than they should.

(4-d) Definitions of RFP, RSQ, and RFI (cont.):

Commissioner Hall stated and the second question I have, and I missed apparently, emergency situations where we can't go through this process, who has the authority to make that decision, Mr. Rodi?

Mr. Wetherington stated Mr. Rodi under the policies and procedures, and then we bring it if it's over \$25,000, we bring it to the Commission at the next meeting to get the overall approval.

Mr. Rodi then stated to Commissioner Diesen to go ahead, I was going to talk about something germane to this when you're finished with your questions.

Commissioner Diesen stated to Mr. Wetherington I just wanted to know what kind of controls you have on the purchasing cards. I think in the past that could have been somewhat abused. Do we have controls in place now and that we know where all the cards are at all times and what they're being used for.

Mr. Wetherington stated yes, when I came on board I had implemented three or four purchasing programs and one of the things I did was get on line with Bank of America, which is our purchasing card program, and know that I have access to go on line and check any card or any transaction that somebody has done, now or later, or before they've done it. Before, they did not have that access and they were not following up and checking to see if that transaction was legitimate or not legitimate, whereas now I have that foresight and also I can look over that.

After another comment, Commissioner Diesen stated so we don't have a lot of Norwood's big lunches and things going on there, good.

Mr. Wetherington stated well put it this way, if they do, I will see it very quickly.

Commissioner Allen asked if this will impact spot purchasing energy.

Mr. Wetherington stated not really, because when you set your process in motion as far as what procedure you use and what avenue you use, the RFP process or the RFQ, and then we have spot quotes we do for other instruments, that would be a good example, that's not going to affect that at all.

Commissioner Allen stated okay, I just wanted to make sure, there was an issue years ago about that.

Mr. Rodi stated right, and there's a great deal of complication behind the question that Commissioner Allen just raised. Part of what we're doing is establishing boundaries, internal boundaries over responsibilities. For example, the client department is really expert in the use of the equipment and in generating the specifications, procurement is expert in contracts and the administration of the process for selection of those contracts. So by defining the procedures and policies in a clearer fashion, what it will begin to do for us is use the best knowledge and have a team answer as opposed to one individual steering it or hoping to drive a particular answer, so we should end up with better quality results. As one other little aside, we have a new Controller

(4-d) Definitions of RFP, RSQ, and RFI (cont.):

who will be starting.

Ms. Klinkenberg stated on Monday morning.

Mr. Rodi stated so obviously a great deal of our preparation work now can be executed because we can start to apply someone who has background to start to tie this all together, so I wanted to use that as a thank you for Ms. Klinkenberg to continue to persevere on that one.

Commissioner Diesen stated so we will, what you're saying, is we're going to be putting a lot more policies and procedures in place that have heretofore been missing in action.

Mr. Rodi stated yes.

Chairman Para stated the Controller, that's a unique position; tell me a little more about that if you don't mind.

Ms. Klinkenberg stated we're going to use the Controller, in my mind, more like an internal auditor and budget supervisor kind of thing. She's going to be involved in every area of the company looking at the controls and how they report to Finance and making sure policies are followed. One of her first tasks, besides the budget because budget season starts next month, well next week actually, she's going to be working on that and then we're going to be monitoring the expenses on each account also, a lot closer. Right now I do the monitoring and sometimes occasionally something will fall through the cracks because the budget's so huge. So she'll be in better control of that, monitoring the encumbrances, just making sure the policies and procedures are followed and going to be putting it all in writing, because like they say in our audit, they say we need to have that policies and procedures manual actually written down; we have some things but they're not written down.

Chairman Para stated and I guess that's kind of where I'm going with this if you follow my line, that this all ties back to Brent Millikan & Company's management letter where they have shown us that we have a few weaknesses and this is all consistent with that response that we have set out in management style, Mr. Rodi, you've set out some objectives to meet those needs and you're following through on that, so thank you.

Ms. Klinkenberg added and we had put it in the budget last year when we prepared for this year's budget and we've been looking since September, and we finally have one.

Mr. Rodi and Chairman Para then thanked Mr. Wetherington for his presentation.

Chairman Para stated very good job sir, I like to see this kind of stuff, and this follows like a best practices mentality of where we want to try to head to. After confirming no further items and no further questions of staff, Chairman Para went on to the next item.

(5) Commission Counsel's Report:

Mr. Preston stated he had nothing to report.

Chairman Para confirmed there were no questions.

(6) Committee Meeting Reports:

Chairman Para started with Commissioner Spangler.

Commissioner Spangler stated we've laid off the last two or three weeks because all we've really done is look at CD's, but information is still coming in that other folder, that's for sure.

Chairman Para commented good report and went to Commissioner Allen.

Commissioner Allen stated he also kind of laid off, looking at CD's. He added it's going to be somewhat of a generic report because I think a lot gets into developing, when you look at conservation you're going to end up looking at rates, to develop rates to do some of the meter reading. Some of the real time costs are very expensive and reiterated it will be kind of a generic report that will come to you.

Chairman Para thanked Commissioner Allen and stated anything you guys give us an extra perspective on, we sure appreciate it. He then stated no further committee reports and moved on to Old Business.

(7) Old Business

(7-a) U.C. Property in Sugar Mill Subdivision – Proposed U.C. Resolution No. 1-07:

Chairman Para asked would Mr. Rodi like to lead us into this, or Mr. Preston.

Mr. Rodi stated I will start and I'll ask Counselor Preston to conclude. We had, in fact shortly after I had come to the U.C. in July, the Sugar Mill Homeowner's Association was interested in securing their interest with regard to the U.C.'s land holdings there which were the former water plant and wastewater treatment plant for Sugar Mill that was privately owned. There was a request then, and what had occurred was Jim White had provided a letter saying that at the time if the U.C. would decide to sell the property, we would request that the purchaser follow the Sugar Mill regulations. So recently Sugar Mill followed up on that letter and I don't know what prompted their interest, it may be our discussions, but in any event I asked Counselor Preston to craft some language because I did not want to encumber our use of our own property but yet I wanted to provide some support for their interest, I understand they have a legitimate interest.

Mr. Preston concluded by stating what the resolution does, and we have to be particularly careful in terms of what we express that we're going to do with any particular property so that you don't confer property rights by any action taken by this Commission. But what we did do if you look beyond the whereas clauses down to sections one and two of the proposed resolution, in essence what you say in section one that the Utilities Commission is not prepared to make any change or

(7-a) U.C. Property in Sugar Mill Subdivision – Proposed U.C. Resolution No. 1-07 (cont.):

add any further restriction to its property inasmuch as there may be continued use for the property by the Utilities Commission. Secondly, what the proposal sets forth is that what this Commission will do if it in fact approves this resolution, is consider at some future date the possibility of placing restrictions on the property should we sell the property, be compelled to sell the property or otherwise. The bottom line is that it doesn't compel us by this adoption to do anything at any time other than to look at whether or not we want to at some future time.

Commissioner Diesen stated so we're staying like we are basically.

Mr. Preston confirmed that statement and added what it effectively does do is that if we are compelled or if we decide to sell the property, then the City must consider at that time whether or not it wants to place restrictions on the property, so there is an obligation by the Commission by this resolution.

Commissioner Spangler stated it sounds like less than it really is, what we're really I think saying is when we get ready to sell it then we're going to take the interest of Sugar Mill into account, but right now, unless we do, we're not going to.

Mr. Preston stated correct.

Commissioner Diesen added because we may want to use it.

Chairman Para then stated good summary and asked for a motion.

Commissioner Diesen made a motion to approve the proposed resolution attached to the agenda item regarding the U.C.'s property in the Sugar Mill Subdivision. Commissioner Spangler seconded this motion and it passed unanimously on a roll call vote. This resolution was numbered 1-07 and became effective immediately upon passage.

(7-b) Fiscal Year 2006 Audit:

Chairman Para referred this item to Ms. Klinkenberg, the Director of Finance.

Ms. Klinkenberg stated I'm just going to introduce Alex Kish and Brad Douglas from Brent Millikan to do the presentation.

Mr. Alex Kish addressed the Commission and stated on behalf of the firm, thanks for the opportunity of working with you this past year. As Ms. Klinkenberg indicated, I have Brad Douglas with me here tonight in case we have any questions that we can't delve into, so that we'll be able to answer any questions that you have. What I'd like to do tonight, just very briefly, is to walk through the results of the 2006 audit report and the comprehensive annual financial report that you have in front of you. As we've discussed with you in the past, it's kind of at least important to understand how the document itself is prepared and what's included in it, what actual sections are included within the so called audit and what actual sections are not. We would like to at least for you to understand in looking at that from the table of contents that there

(7-b) Fiscal Year 2006 Audit (cont.):

is an introductory section which is just that, it's introductory, it's not included in the reporting section. The financial section, we actually issue a financial, an audit report, on your financial statements within that section. Then the statistical section follows in the back and that has been completely revised to respond to new requirements for disclosure of certain demographic and trend information. So that's a whole new section altogether they included this year as well as in the supplemental audit report section in the very, very back.

Mr. Kish stated what I would like to do if I can is flip over to page one, the actual audit report itself, and in our audit report we're conveying to you here that we're rendering an unqualified opinion, and by that we say that there are no qualifications for inconsistencies or problems. In essence an unqualified opinion is a good audit report. The most important part of the actual report itself is the third paragraph and that's where we render our opinion on your financial statements indicating that the financial statements included in the report present fairly and in all material respects your financial position and results of operations for the year. Also makes reference to other documents that are included in here and whether or not they're included within the original report structure.

Mr. Kish stated when we flip over to pages three through twelve, this really is the narrative recap, we call it the management's discussion and analysis section. This is where your management goes through, and actually in a narrative format, reports on all financial highlights or lowlights if any exist, that occurred within the financial year. We think that if you have an opportunity to read through this section it really tells it all right there in the first few pages and literally through page twelve, it's got a recap of everything that happened during the fiscal year as well as certain position items regarding debt, regarding fixed assets, regarding operational activities, revenues, expenses; the whole works. But the key thing to point out in looking at this data is when we look at the actual balance sheet, which is discussed following that when we get into the financial statements, we look at a situation where the Utilities Commission had total assets on page 13 and 14, we look at reported total assets of almost \$170 million at the end of September 30, 2006. If we take a look we can compare that back with about \$160 million, \$159.3 million the year before. This represents about a \$9.5, \$9.6 million increase and the key thing to point out in looking at that, where we want to see what did, we actually invest in, we can see that the bulk of that is in the utility plant, investments in actual hard assets that were retained during the year.

Mr. Kish stated when we look at liabilities overall, we look at roughly \$85.6 million at the end of September 30, compared with \$86.5 million the year before. Key thing here to point out is that we had really about a \$770,000 decrease over on liabilities, but we had changes in small items above but the bulk of which we had debt retirement on bonds, bonded debt retirement, a little in excess of \$5 million on principal reduction. So the key thing to point out there in looking at that is we do see a \$5 million reduction overall in long term debt and the other items are from operational areas. One thing we had pointed out and I failed to mention to you in looking at total assets, is that one of the issues in one of the areas that we looked at that we're always involved in, and in looking at is unbilled and underrecovered fuel and purchase power costs. The receivable balance that's indicated on here at year end actually accounted for \$4.7 million included in the receivable balance. Unbilled accounts receivable, the total balance was \$8

(7-b) Fiscal Year 2006 Audit (cont.):

million, it increased, excuse me, \$4.7 million during the year, \$8 million at the end of the year compared to about \$5 million the year before. We've all talked about the opportunity that you walk into the gas station and tell them we don't want to pay \$3.10 for gas, we'd rather pay a \$1.70 but that doesn't happen so what's happened as a result of that, I think you can see, is we have a large receivable balance that carries over and as you all very well know that does in fact flip flop through the energy cost adjustments that are made. So on a quarterly basis those actual amounts are reversed and recoveries are made, but it is loaded into the financial statement in the form of an unbilled receivable.

Mr. Kish stated other issue to look at, net assets over on pages 13 and 14, what we call surplus, we can see overall net assets increased almost \$10.4 million and when we look at that we see about \$5.9 million of that overall increase was as a result of the developer donated in ground assets. So again, a \$10.5 million increase in net assets for the year shows very strong financial growth for 2006. We take a look on pages 15 and 16 at the statement of revenues and expenses and changes in net assets and our statement of cash flows, we can see on page 15, also want to point out to you, make a note there, that's really summarized, a summary of information found on page 38 and 39 which breaks down individual system data, this is all combined system-wide when we take a look on page 15. One of the key things to look at there is overall operating revenues at \$64 million compared to about \$59 million the year before; a good strong increase there, \$5 million over last year. The electric portion of that was about an \$8.5 million increase, \$8.2 million. Water increased slightly but again a very positive increase, \$618,000, wastewater increase \$789,000 in revenues, while the communications aspect actually was a reduction of \$4.6 million which liquidated the major portion of the change there. Overall operating expenses increased only about \$2.3 million and again the single most significant item there was fuel and purchased power which actually increased about \$6.2 million in 2006 compared to 2005.

Mr. Kish stated other operating expenses, again the primary result of the decrease there is again the same reason that we see it on the operating revenue side, it's the exiting of the phone sales and cable service industries during the mid part of the year. Also, if you want to see a ten year history on your demographics and operating statistics, that's summarized on pages 56 to 61 in the new revised statistical schedule summary. System net income overall from operations before the capital contributions, I indicated to you remember we had a very large number of developer provided in ground contributions this year but before that we're looking at electric system net revenues or net income before capital of about \$4.5 million, water produced net income of about \$700,000, sewer about \$600,000, and where the communications provided for about almost \$3 million, \$2.9 million operating loss there.

Mr. Kish stated statement of cash flows show that we're actually using cash. The key thing to point out to you in looking at that schedule is overall reductions in cash and cash equivalents were about \$3.2 million overall for the year. Keep in mind that we talked about the fuel and purchased power costs did in fact go up and one of the key things was about a \$4.7 million increase overall in unbilled receivables. So again, we have to pay the expenses but we're going to recover the revenues and the income back over an extended period of time. While it does not impact the actual reporting of net income or loss because we're on a full accrual basis, it does impact the way that your cash receipts come in and cash disbursements go out. So the key thing

(7-b) Fiscal Year 2006 Audit (cont.):

I want to point out to you is we had about a \$3.2 million reduction in cash as a result of operations for the year.

Mr. Kish stated in looking at the schedules in the back, the notes, we've got 38 pages of notes here, which just basically provide additional detail. I'm not going to go through those in detail with you other than to let you know that they're just summaries of additional disclosures and information. The back section includes certain schedules that have operating statistics and operating data provided to you including bond information, your debt service schedules, and some of these are typical schedules that are not included in the typical comprehensive annual financial report but we feel this is additional disclosures that are made. The stat section in the back, on pages 52 to 89, key thing is to point out these are all new requirements, new disclosures, so your staff spent considerable effort compiling this data. It looks very simple in its final form but that was a tremendous personnel, tremendous undertaking, to pull all this data together and there's a lot of information there, and it's not just one person in the Commission that did that, it trickles down into each individual system. Your Department heads and managers spent a lot of time going back digging up this historical data. The key thing is it's ten years of trend data so its very interesting to look at.

Mr. Kish stated the very back section includes the reports that we've issued on the supplemental section, basically compliance reports. The key thing for us to mention to you tonight is that our report actually incorporates by reference a prior report rendered to you back on June 5th. I'm not going to stand here tonight and go through all that with you again even though it is in fact included within the document we've provided to you. It is incorporated by reference as well as key areas that were indicated in the report last year that have been reproduced here. Primarily, just to hit on the individual items, the issues regarding the CommWorx system, fraud monitoring, policies manuals, capital assets for depreciation, as well as work order systems, communications tax reporting and collections systems, IT storage management, software, hardware, inventory control. Again, just to hit those items, and the only one I want to mention to you is something we are in fact working on, when I say we meaning the Utilities Commission, is the evaluation of what we call other post-employment benefit liabilities. In the State of Florida it's statutorily required that when you have someone resign that you provide them with the ability to continue to pay for their own health insurance. Even though they pay for it 100% it still creates a potential liability that has to be valued; why is the major question. The governmental accounting standards board issued a pronouncement saying hey, it's just a number that they want to know and so now we're going to have to go through the process to determine what that is. It's not different than looking at the present value of a pension commitment and the reason that they do this is they say, if you can envision with me without beating this to death, that you have retired lives, say 65 to 75 years old, and the Utilities Commission has an average age worker let's say is 40 years old. That 65 to 75 census actually does in fact impact the insurance rates they charge you for the 40 year old average life that is in your pool. In other words because of that census adjustment you're paying more for your unretired lives than you normally would simply so that you can provide for the incremental difference in that. It's splitting hairs, it's really hard to believe that they want to look at those numbers in their entirety but your underwriting groups are prepared to do that for you. It's going to take a lot of working to pull that number together, it will be disclosed, it's not going to be a recorded number, it's simply a number that you make a

(7-b) Fiscal Year 2006 Audit (cont.):

disclosure of in the financial statements, but it is going to be a required information number that's something that's going to be worked on.

Mr. Kish stated current year issues basically, even looking at those, those were all, each of the current year matters that we've reported to you were reported in the June 5th transmittal so I really don't want to go through those again unless you have any particular questions regarding any of those matters. In concluding I want to thank Executive and Finance Divisions for their continued support and assistance in working on the audit this past year. We think we've made a lot of changes, there's been a lot of things that have been tackled at one time and I can assure you there's been a lot of issues, a lot of work, a whole new way of looking at things that's been employed in the past year and we want to thank them for the opportunity and privilege of working with them as well as for their participation and assistance. He stated so I'm ready to answer any questions that you have regarding the audit.

Chairman Para stated the only thing I have to offer is consistent with what you had done last time we were together Mr. Rodi, that report card, so that again we are in a responsible way declaring out to the community the actions that have been taken to address the issues that came into the management report. I know you've got the majority of that already done and I'm very pleased that has occurred but if we could just respond likewise to each of the items raised in this management letter.

Mr. Rodi stated the answers are right there.

Ms. Klinkenberg stated the last page.

Mr. Kish then stated management's response to each of the comments by the way is included in the very, very end section.

Chairman Para stated okay, my apologies.

Mr. Kish added it's required to be bound into the document.

Chairman Para commented you beat me to it.

After a couple of other comments, Mr. Kish stated you have good responsive reaction to these issues and most of them have been, hate to use the word put to bed, but they have been put to bed; a lot of these issues have been resolved.

Commissioner Diesen stated a lot different than some of our previous reports.

Chairman Para thanked Mr. Kish and asked if there were any further questions.

Commissioner Diesen stated no, but I'd like to make a comment, this really is a pleasure to have this kind, and so fast, it's 2006, that's wonderful, but I think staff really is to be complimented and we appreciate all the hard work because there certainly is a visible difference between last

(7-b) Fiscal Year 2006 Audit (cont.):

year and this year.

Commissioner Allen stated I'd like to make a comment, I like the financial report the way it came out, I do like the historical, I know it was a lot of headache to get it but I believe it's going to be a good working tool for the future and I would hope that would continue on.

Ms. Klinkenberg stated I would like to thank all the people that helped us put this together because it definitely, like they said, wasn't just Finance. I mean everybody, every Director that I requested information from had it to me almost immediately, which enabled the auditors to compile everything in such a timely manner, and she added they're a joy to work with.

Chairman Para stated and I don't mean to pile on here, but it really is a value statement to this company that's the direction that we've turned so we just have to be comfortable knowing ourselves that's taken place. Thank you all again, I'll reiterate that.

Commissioner Spangler stated I'd like to say that around here this is almost unprecedented.

Chairman Para stated good job.

Commissioner Diesen commented amen, Commissioner, amen. She then asked if a motion was needed to accept the audit report.

Mr. Rodi answered yes, please.

Commissioner Diesen then made a motion to accept and receive the Audit for Fiscal Year Ended September 30, 2006 and Commissioner Allen seconded this motion which passed unanimously on a roll call vote.

(8) New Business

(8-a) Development of Power Supply RFP:

Mr. Tim Beyrle addressed the Commission and stated we had discussed some time ago, and last year we were notified by Progress Energy, that the partial requirements contract we've had with them for fifteen plus years now will not be renewed after December 31, 2008. That was essentially our main firm capacity and energy contract that we've had since the early 90's. We also have a firm contract with Tampa Electric right now which will be expiring at the end of this year. What we've determined we need to do at this point is go out for an RFP for capacity and energy for the base load and intermediate load portions of our needs for the next five to ten years. Last year alone, fiscal year 2006, we spent \$5.9 million with Progress Energy just on this contract, and our intermediate non-firm energy purchases amounted to around \$4.6 million in fiscal year 2006. So the two of those portions of our energy supply account for nearly half of all of our costs. In the past we've written our own RFP's, I've written probably two in the last 15 years that I've been here, but I'm not an RFP writer, essentially. What we'd like to do this year is bring in a firm, R.W. Beck specifically in this case, and utilize their resources, their staff, their

(8-a) Development of Power Supply RFP (cont.):

experience, and put together a full fledged RFP and incorporate possibly any RFP's or RSQ's for generation along with that, that we may be going out for in the near future. Just hopefully, getting good results from this one that we haven't really seen from past RFP's.

Chairman Para thanked Mr. Beyrle and asked if there were any questions.

Commissioner Hall asked are we sure that R.W. Beck, Inc., does not have any conflicts with organizations that may be submitting proposals to us?

Mr. Beyrle stated I assume that's part of our new procedures that I've seen.

Mr. Rodi interjected disclosure agreement.

Mr. Beyrle reiterated a disclosure agreement for anything, and as far as I know they don't have any association with any firms that do that, but that is included in our RFP language.

Commissioner Hall stated second question, what other companies are out there that could have done this.

Mr. Beyrle stated we currently have continuing contracts with I think three firms, Black & Veatch, Quentin Hampton, and R.W. Beck.

Mr. White added DRMP.

Mr. Beyrle commented they don't do electric, so really Black & Veatch is the main one who would be the competition for this. R.W. Beck has been doing RFP's for a lot of the municipal utilities around the state, that's kind of been their focus.

Commissioner Hall interjected and you feel they're the best to do this.

Mr. Beyrle answered yes.

Mr. Rodi stated if I might interject, the team lead has specific expertise that may be very helpful to us at this point in time.

Commissioner Diesen asked Commissioner Allen if he had any thoughts.

Chairman Para added we were hoping you would comment.

Commissioner Allen stated I think they would be a fine company as far as knowing the industry and being able to do the work. I had just one question, reading through the contract itself that they had, on attachment A on the bottom end as far as the power purchasing to start. I had a little concern about that, was that their actual finding for that or maybe an earlier start if you got it back to them this next year coming up.

(8-a) Development of Power Supply RFP (cont.):

Mr. Beyrle said what they put it there was tentative.

Commissioner Allen stated so it may be sooner, depending on where that goes.

Mr. Beyrle stated yes, basically whatever we request for them to put in there, they put those in there to have place markers for the date.

Mr. Rodi added just one other comment, there's a short term aspect of this proposal and then there's a long term aspect. We're trying to address both the long term with reference to purchases off the grid and perhaps a partnership so that a lot of our discussions with regard to local area power plant finance by someone else would be incorporated in this approach.

Commissioner Diesen stated so this amount then that's all inclusive, that's not-to-exceed, the not-to-exceed price is all inclusive.

Mr. Rodi answered yes.

Commissioner Allen stated probably the other positive aspect of using, like R.W. Beck, would be their base of knowledge of plants and things being built out and those capacities and having that firm knowledge to be able to know that there may be some available capacity at different levels that you can get in on, on a ground floor like, for a given period of time. Where as far as if you tried to do it in-house it would be tough to find all that information.

Commissioner Spangler asked Mr. Beyrle is it possible that part of this, I know we're going after purchase power contracts and I know we're also looking for generation in the future, I suppose it's possible that there's somebody that we don't know about that's going to come up with some new generation that we'll get a part of, is that all. Otherwise it's we're going to buy from people that already have it, which will be a lot of fun, and then we're ultimately going to look for maybe having some ourselves, and is the intermediate step possibly that there's somebody else that's already planning something and they want us to take some of the base load, is that what you're looking at.

Mr. Beyrle stated that's part of it.

Commissioner Spangler stated how are we looking there, we don't know, and that's what Beck's going to tell us.

Commissioner Diesen commented right.

Chairman Para stated I think in essence it gives us an ability to maintain our autonomy and what we do as a municipal company and allows the consultant, R.W. Beck to move with latitude and freedom that we don't necessarily have. He then stated good, any further discussion and there being none, asked if there was a motion.

(8-a) Development of Power Supply RFP (cont.):

Commissioner Allen made a motion to proceed with the development of this power supply RFP (authorized R.W. Beck, Inc., to proceed with engineering services for an RFP for power supply as outlined in the task authorization form attached to the agenda item for an amount not-to-exceed \$100,000, and authorized the General Manager/CEO to execute any and all documents associated with same). Commissioner Diesen seconded this motion and it passed unanimously on a roll call vote.

(9) Possible Other Business – Time for Commissioners:

Mr. Rodi stated the words Agit-Prop and explained this was a word from the mid-30's and it's actually a contraction for agitation propaganda, and added there's been quite a bit of that lately. However, in some of it there's a very serious concern that I have with regard to what's been happening on the developer front. At this point, very candidly, I'm asking that we have some additional external counsel to work through Counselor Preston's direction, and to also perhaps use that as an opportunity for some genuine dialogue that might be needed along the way. I just wanted to bring it forward without getting into some of the specific detail because there are obviously some things being said that aren't even close to accurate and I'm hoping that they're just misinformation as opposed to anything more than that. Better to be prepared than not have acted upon it. With that I'm asking that we be able to engage a law firm and have them work with Counselor Preston, so I wanted to bring that forward.

Commissioner Hall stated so move (authorized engagement of a law firm, external counsel, to work with Counselor Preston, regarding existing UC Developer policies) and Commissioner Diesen seconded that motion. There being no further discussion, Commissioner Hall's previous motion then passed unanimously on a roll call vote.

Mr. Rodi stated I have another item. I've been, as I said before, I listen or try to listen carefully, the opportunity for water supply from Daytona Beach does not seem to be a long term answer. The expectation that Daytona has is they're building out very quickly with a reuse system, they've not had much of it and they would probably need every drop of reuse water in the future so that would not be a long term answer for us. I'm still researching some of the other suggestions. I have other knowledge that it would be premature for me to share right now, but I still think that the fundamental policy question that I would like to keep out front is with water supply I believe we need to maintain control; I mean local control of our own water supply just as a public policy issue. So with that, I just wanted to bring that forward that I'm continuing to examine those items.

Chairman Para stated in conjunction with that I had an opportunity to meet an old friend of mine from the construction side, and if you don't mind it's not like he's got a consultant business, he's just a local New Smyrna person and would be glad to give his 35 years of industry experience and perspective for you if you'd like to visit with him. I'll make that arrangement.

Mr. Rodi stated certainly, can always learn something.

(9) Possible Other Business – Time for Commissioners (cont.):

Chairman Para stated yes, just information to put into the process. Chairman Para then asked Commissioner Spangler if he had any further possible business.

Commissioner Spangler stated when are we going to meet with the City Commission about these developer fees, has that been set up?

Mr. Rodi stated not that I know of.

Commissioner Spangler stated well I was at a City Commission meeting where some things were said that I didn't like and basically, the developers or their counsel backed down and requested a meeting between the Utilities Commission and the City Commission about the fairness or the unfairness of what we're charging. So we will be having that workshop, I suppose, when we get through or in between the other ones, and some of the things their counsel said I think were a big mistake on their part, and I think that our auditors will be able to throw that away and once that's gone I'm not sure what their argument's going to be. But that one was Landmar, and then we have Jerry Johnson who's postponed his problems. He commented I'm slightly more empathetic to part of what he's saying than I am to the other. In case the Commissioners are not aware, there will be a request by counsel for Landmar for the City Commission and the Utilities Commission to hear their plea.

Mr. Rodi stated I would like Counselor Preston to address that.

Mr. Preston stated you know in response to that, there may be such a request by that counsel. It's my opinion that's not the appropriate forum for discussion inasmuch as we are meeting with two individual potential adversaries clients to discuss their particular issues, nothing that can be germane to the broader community as a whole. So my recommendation to us, the Commissioners, you, and to them is that in fact if they wish to meet with us to attempt to discuss, negotiate, or otherwise pontificate about what they believe to be in regards to the addendum so be it, but that the appropriate forum is individual, not as a public meeting between two entities who really aren't necessarily privy to their particular issues.

Commissioner Spangler stated I think they're just trying to hold some developer's, some agreement, not our developer agreement but someone in the City signed an agreement six, or eight, or nine years ago saying that the City would make water and sewer available to this developer. And I think that the purpose of that agreement was because they were so far out in the pasture at that time, the City was just trying to assure them that, you know, that we would make it available but the counsel for the developer was trying to make it look like the City promised that it would be provided for nothing. He was holding that over the City's head and when one of the City Commissioners said oh no, the City is not going to pay for it, then they decided that they didn't want to push that issue any further and they called for a meeting between the two Commissions. And I agree the City needs to take care of their own problem and when the developers come to us then we'll take care of our situation; I just wanted to say that.

Commissioner Allen stated this same thing, what we see going on, you look at so far out then you start making a process of trying to do something, then as this Commission has gone through

(9) Possible Other Business – Time for Commissioners (cont.):

a process of spending much time to come up with a policy that's suppose to work and need to abide by that policy and work with that policy. You know it's kind of, when you read the news and see what some long term contracts get people into, and when you really look and you don't think about what's happening, so things really change drastically, and you can get burned pretty bad. But you know we set up policies and those policies will work, so often you come along and somebody has a concept as they look, we're looking down the road eight years out or five years out, then when you come to the point and you want to try to get by as cheap as you can, but reiterated there are policies in place and they should work.

Chairman Para stated I just want to thank Mr. Beyrle again for the splendid work that his division did. I don't know if you all caught the article that was done in the Sunday newspaper, it was really well done and staff did an excellent job, so thank you very much.

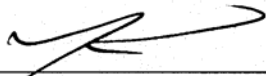
Mr. Beyrle then commented the truck is out back.

After a few more comments regarding the "vegee" truck (UC vehicle modified to run on vegetable oil), Mr. Rodi stated we hope to have a highlight story for those who worked on it and painted it and so forth.

Chairman Para stated I just wanted to thank you again for your willingness to apply yourselves in that way. He stated that's all I have and asked for a motion for adjournment.

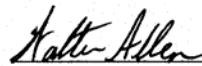
There being no further business to come before the Commission, Commissioner Allen made a motion to adjourn and Chairman Para closed the regular U.C. meeting at 7:13 p.m.

APPROVED:



CHAIRMAN

ATTEST:



SECRETARY-TREASURER

These minutes were formally approved by the Utilities Commission at their February 26, 2007 meeting.