

AGENDA ITEM 2-b

MINUTES OF A REGULAR MEETING OF THE UTILITIES COMMISSION, CITY OF NEW SMYRNA BEACH, FLORIDA, HELD MONDAY, JANUARY 28, 2008, AT 6:00 P.M., AT 200 CANAL STREET, NEW SMYRNA BEACH, FLORIDA

Chairman Allen stated he would proceed with an invocation and requested Commissioner Reynolds to lead in the Pledge of Allegiance immediately following.

Chairman Allen then requested for a roll call to be taken with all of the Commissioners in attendance as follows:

Commissioner Jeanne K. Diesen
Commissioner William E. Hall
Commissioner William H. Reynolds
Commissioner Oscar Zeller
Chairman 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 Operations & Generation; D. Hoover, Director of Water/ Wastewater; J. White, Director of Engineering; R. Lemoine, Director of I.T.; P. Perez, Director of H.R.; E. Mahle, Public Information Manager; B. Bilinski, Controller/Budget Supervisor; D. Wood, Customer Service Manager; J. Santrock, Senior Customer Service Supervisor; D. Zorge, Customer Service Supervisor; D. Simmons, Executive Asst./Recording Secretary; and a few other U.C. employees; B. Preston, Interim U.C. Legal Counsel; Brad Douglas and Alex Kish, representatives from Brent Millikan & Company, P.A.; Tom Cummings, representative from Black & Veatch; Melanie Stawicki-Azam, Reporter for the NEWS JOURNAL; Bob Tolley, Mike McCormick, Steve Provost, and Margaret Yarranton, members of the public.

(1) Agenda Changes, Additions and Deletions:

Chairman Allen then asked if there were any agenda changes, additions or deletions?

Mr. Rodi stated I have one Mr. Chairman. Late this afternoon, Winston Schwarz from The Palms informed Randy Walter that he would like agenda items 2-f., 2-g., and 2-h. removed from the consent agenda and removed from consideration at this time.

Chairman Allen stated we can do that.

Mr. Rodi stated we need a motion to do that.

Chairman Allen confirmed with Mr. Preston a motion was required and then requested same.

Commissioner Hall then made a motion to remove agenda items 2-f., 2-g., and 2-h. from the consent agenda and consideration at this time. Commissioner Diesen seconded the motion and it passed unanimously on a roll call vote.

(2) Approval of Consent Items:

Chairman Allen then stated item two is approval of consent items, less the ones that were removed.

Commissioner Diesen stated I move approval of the consent items with the exception of 2-f., 2-g. and 2-h. Commissioner Diesen's motion was to approve the consent items 2-a. Minutes of Regular U.C. Meeting Held 12-17-07, approve as submitted; 2-b. Engineering Services – Black & Veatch (Water Projects), approved and authorized Black & Veatch to proceed with the engineering services and scope of services as outlined in the agenda item and in its attachments, for the not to exceed amount of \$1,194,600, to be funded from the recently approved \$10 million bank qualified loan, and authorize the General Manager/CEO to execute any and all documents related to this matter; 2-c. Computer Upgrade Project – Microsoft Great Plains Financial Software – Templeton Cancellation, ratified payment of additional fees (approximately \$33,000) to Templeton for the computer upgrade project, specifically for the Great Plains Financial Software upgrade, and ratified subsequent termination of previously approved consulting statement of work; 2-d. Computer Upgrade Project – Microsoft Great Plains Financial Software – IBG Completion, ratified the agreement with IBG in the not-to-exceed amount of \$32,500 for the completion of module implementation and training for the Microsoft Great Plains financial software, version 9.0, for the computer upgrade project; 2-e. Developer's Agreement and Addendum – 3rd Avenue Storage Tank, approved as submitted and authorized GM/CEO to execute documents; and 2-i. Developer's Agreement and Addendum – TBCOM Cell Tower / Southeast Interchange Complex, approved as submitted and authorized GM/CEO to execute documents.

Commissioner Hall seconded that motion and it passed unanimously on a roll call vote.

(3) Public Participation:

Chairman Allen stated okay, we now come to public participation, Mr. Tolley.

(3-a) Request to Appear – Robert Tolley – Telecom Investigative Issues:

Mr. Tolley addressed the Commission and stated good evening. He welcomed Commissioner Reynolds back to the Utilities Commission. He stated after the meetings back and forth in this room with the City Commission, some other ideas came to light about possibly how I can get you folks up there to possibly go along with some other tricks for the telecom issue. So I wanted to pass a couple of things by you for consideration.

Mr. Tolley stated number one, and by the way none of this really costs us any money except for number three. Number one we request to you, I'm sorry, the State Attorney's Office reconsider and reopen the investigation based upon evidence he didn't consider the first time. If we put it that way, he won't figure out what we're talking about and he most probably will reopen it.

Mr. Tolley stated number two, if he refuses to reopen the investigation, that we then go to the U.S. Attorney's office for the middle district. Inform him about the case, explain to him about what's going on and see if he'll get involved. This again is just to expedite matters that possibly may also be going on at the FBI, which will have to come back to the U.S. Attorney's office anyway.

Mr. Tolley stated number three, and this is going to cost us a couple of bucks. We talk about all the

(3-a) Request to Appear – Robert Tolley – Telecom Investigative Issues (cont.):

people who have come up to a lot of us, Commissioners, elected officials, who want to continue to see this pushed forward regardless of cost. So I came up with the idea of a thought, why don't send out a questionnaire in one of our monthly statements. Let's ask the people what's your thought, put the questionnaire in there, are you willing to go forward with all methods possible or available to us to go after this telecom issue even if it does possibly incur a \$10 a month fee or \$5 a month fee. I don't think we need much to go over \$50,000 or \$60,000 initially, so I don't know how much that comes to for what, 20,000 customers, \$3.00, and let them decide. This way everybody's off the hook if they come back and say don't spend any more money. Okay but I think you're going to get a surprise, I think the overwhelming majority's going to come back and say they want to get to the bottom of this once and for all. Mr. Tolley stated so those are three items I come before you tonight with; any thoughts?

Commissioner Hall made a few comments which were not recorded due to a tape malfunction.

After a new tape was inserted, Chairman Allen requested Commissioner Hall to repeat his comments.

Commissioner Hall commented he would be a little more brief than he was the first time around. He stated I disagree with some of the steps that you're proposing because of previous experience in another role I was in. But I do hear from people in my neighborhood, and around town, that they do want us to pursue what happened and in their minds justice has to be served. Their interpretation of justice is someone needs to pay for what happened.

Chairman Allen asked if there were other comments.

Commissioner Zeller stated I'd like to have it put to bed and if it means sending out those postcards with a response, done properly, legally, so that the ratepayers know that it will cost them. If they come back and says let it cost us, but I can't see without their permission so to speak is what you're asking.

Mr. Tolley stated it's a third alternative.

Commissioner Zeller stated yes, and if they give permission to spend the money then I don't see that we have any other choice but then let them vote and then maybe we can put it to bed one way or another. He added I don't like to see spending good money after bad.

Commissioner Diesen stated I can tell you about 15,000 different thousand reasons why that won't work, doing that survey, unless you have somebody go and hand deliver it and take it right back. There are so many ways to replicate something like that and duplicate it and skew the evidence. And I don't know, setting up a special fund for something like that, that's way out of my pay category but I think it's questionable. A nice idea but...

Mr. Tolley stated well, we still have the other two.

Commissioner Reynolds stated I thought about this long and hard once I put my application in for this position, and I talked over with a few people what you are proposing and most thought it was a

(3-a) Request to Appear – Robert Tolley – Telecom Investigative Issues (cont.):

good idea. I realize what Commissioner Diesen is saying that sure there are a lot of logistical things that we would have to do and obviously we would have to summarize it in such a way to be pretty succinct and understandable. I have a few people that ask what is going on in the investigation, are we pursuing that, but I can't say that I could quantify it with several dozen people that I've talked to. I do think it's worth pursuing doing a survey and I realize what Commissioner Diesen says, it's a heck of a lot problems. I guess you could go and put a serial number on each card so that duplication would not be possible. It does take some people time to read the results but I think from what I hear they're tired of hearing about it and they either want something done about it or forgetting it; that's basic. So maybe our customers are the ones to let us know how they feel.

Mr. Tolley stated there's another benefit to this also and I know that some of the Commissioners have raised some other issues. I'm not going to attach a name to the issue but I know that this generator thing is still bothering people from a very long time. That was even before the telecom issue really started coming to light. I can't tell you how many people say man, somebody lined their pockets with some cash on that deal and it keeps coming back. So again we're not just getting our money's worth on the telecom issue, I think a whole bunch of other issues are going to come that have just been kind of laying there dormant and festering that I think needs to come out however we get there. And then like you said we put this stuff to bed once and for all, we're still moving forward, it's not stopping us from moving forward on anything we're doing but we'll get to the bottom of it once and for all.

Commissioner Hall stated God forbid if we do put this out for a vote so to speak and ask the ratepayers if they're going to pay \$5.00, \$10.00, or whatever the cost may be, what happens if there's a next time with a different situation. Are we giving up our right as the Utilities Commission to make the final decisions? And I think we've already made the decision to pursue this as a civil matter.

Mr. Tolley stated no, it was against the civil matter if I remember, the Commission as a whole didn't want to do anything on the civil side which was what I was pushing. Mr. Tolley added I'm pretty sure that was the vote.

Commissioner Hall commented I lost that one.

Commissioner Zeller stated I'd like to get counsel's opinion on it.

Mr. Preston stated let me suggest a couple of things, one of them is as far as items one and two, they haven't been discussed yet as to the viability to those. Item three, in regards to a questionnaire and in particular in regards to financing any legal action taken or suggested action that would support providing materials to or anything else in support of any criminal action is suspect at best. We're looking at a highly regulated municipality, the Utilities Commission, in regards to how we charge rates, how rates are determined, and if we are going to proceed in this way, I would suggest that you at least give me some time to research if we can do so in a volunteer participatory way. If citizens, ratepayers, or otherwise want to volunteer providing fiscal support for such an action, perhaps that may work, but I think we are treading on sensitive legal issues in areas. Mr. Rodi would have more understanding of those, but I think we're barking up the wrong tree as far as asking for fiscal support from ratepayers or citizens. Where you may go as far as their non-fiscal support and

(3-a) Request to Appear – Robert Tolley – Telecom Investigative Issues (cont.):

viability of that, that's up to you.

Mr. Tolley stated so if the response is positive, then the Commission has before them two choices. Based upon the survey, we can still do that, we don't even have to mention the issue of the funds which I think I'm hearing would cause other problems. But at least these five members would really, possibly, get a good feel for whatever body wants, or a majority of the folks want, which I'm pretty sure I already know the answer.

Commissioner Diesen stated well it depends on what you're going to use, what you will accept. She stated mail out surveys, if you get 30% response that's about average; that's part of what I do for a living. That is with several promptings to raise that rate, so you're not going to get 100%, so what are going to base this on then. So if you get a 30% response that says yes we will, or if those folks are interested and only the ones that don't want to go ahead answered; you know you've lost the ball game. I think you've got to be really, really careful doing an open ended survey like that.

Mr. Tolley stated so we'll take it off the table if that's what the members decide and counsel and Mr. Rodi think. It was just an idea to keep this ball rolling somehow, even a little faster. If you want to look at just items one and two fine.

Commissioner Diesen stated I just don't want us to get into a situation that's going to put us further away from what the end goal was than where we are right now, which is to get to the bottom of it I guess would be considered the end goal. I just raise that issue about surveys and the possibilities there, and how difficult it is to secure them and the response rate. Maybe you'll get, I could be totally wrong, it may be such a hot button issue that you'll get 15,000 replies. I would find that highly suspect if you did but I think we need to get some better advice from our counsel before we even go down that rabbit trail would be my suggestion.

Mr. Preston stated and where we are now, and this has been a question I get often, in regards to the status of the current request for the southern district for the federal bureau. We've heard nothing but we also recognize that the letter that was sent to them supplying some information to them was sent just prior to Christmas and the Christmas break. So on the one hand we have not heard from them, on the other hand I'm not too disappointed or surprised by that, I didn't really expect to hear in the short order that we would like to hear. So that is still current and active in my opinion at this point, so we may still receive some response in some short order from them, and that's what's pending at this point.

Chairman Allen stated I'd just like to make one comment, I know people are upset and they would like to see something done, but then again in my humble opinion, and I'm not any kind of expert with it and I continue to lean on the expertise from our counsel in that, because there is truly a due process and a lot of times if we get to moving that due process gets kind of clouded many times. I think it behooves us to be sensitive and follow the direction of our counsel and the staffing's direction; that's my opinion.

Mr. Rodi stated I need to inject here, this is a legal matter, it's up to our elected prosecutors and people charged with enforcing the law to make the interpretations. This is, and Mr. Tolley knows this very well, this is very complex, and to solicit opinion because that's what a survey does, it

(3-a) Request to Appear – Robert Tolley – Telecom Investigative Issues (cont.):

solicits opinion, I think is not an appropriate tool for interpreting the law and whatever actions did or didn't occur. So my sense of this is the first two items are within the bounds of the charge of the State Attorney's office, the U.S. Attorney, and the investigative bodies that support those positions. As Commissioner Diesen was stating, just even the framing of the information to present is problematic. I don't think that should be a role of this Commission or a public conveyance. So that's just some opinion on my part.

Mr. Preston stated and may I just also add to that, it is my opinion that you all have fulfilled your duties in representing this Commission and the ratepayers in providing the information to the various authorities for their determination. And that no matter how many people do or do not agree with that you have taken that on as your responsibility to at least submit to the appropriate authorities for their decision as to how to handle, if at all, any further action in this regard. So I just want to summarize that in my opinion you all have fulfilled your duty and are fulfilling your duty to the ratepayer to see that appropriate determination is made regarding the actions of the telecommunications era.

Chairman Allen stated to Mr. Tolley, the information you've given us, we appreciate the thought process. He then asked the Commissioners, what is the desire here, to just continue? He stated one concern I have is, our legal counsel has sent a letter. I would like to see that process followed through and hopefully we'll hear something, an acknowledgement yes, we've received it and something back. It seems like to me and then we know you've shared with us the actions that can be taken and then follow through with that, but I think we need to follow the due course that we've decided. I know people are antsy, I know that people can get upset, but I believe there's a process and we'll follow through and follow the direction of our counsel.

Mr. Tolley then thanked the Commission.

(3) Public Participation (cont.):

Chairman Allen then asked if there was any other public participation.

A lady from the audience addressed the Commission and stated with respect to the proposed water tank on beachside I would like to...

Chairman Allen interjected he would like to have a name.

The lady then stated her name was Margaret Yarrangton, 309 Florida Avenue. She stated I'd like to suggest that you not try to hide the new water tank with architectural features but build it up as a visible art form. I'm afraid I'm not computer handy so I couldn't get these printed up in any quantity. She held up a picture and stated this is the Dorchester Massachusetts natural gas tank, which is painted with splashes of color like a rainbow. This is huge, I agree it's much bigger than what we're going to have, however this tank is right beside the expressway leading out of Boston and it's world famous and has been called a national landmark. It's designed by the late Corita Kent, who by the way also designed the Love Stamp and a record cover for our own John Hotstetter. The tank spans about 150 feet. She stated paint will not blow off in hurricanes, nor deteriorate like our Flagler Beach park. It might have to be repainted in x years, you could also get

(3) Public Participation (cont.):

I think input, this community is full of artists, have a small competition for a design, and put the artist's name on the tank which it is on this one. I think you will quite get deluged with designs and suggestions. I submit that it may be cheaper than putting a roof over it and it won't blow away. You may also find that the local paint company would be interested in being involved, Coronado I think their name is. Thank you.

Chairman Allen thanked Ms. Yarrangton for her input and stated I will put that to staff to address some issues on this if you want to.

Mr. Rodi stated first of all I think what we're working with are the regulations that New Smyrna Beach is imposing and one of them is height limits. As a result, this is a concrete tank that is going in there and it is going to be contained within the existing walls that are there. We're not planning to put a roof structure over those walls and we will have already filed for a variance just from a standpoint of the distances for setbacks in order to build the tank. So from several perspectives, most of the surface area of the tank won't be seen and the initial discussions with the City don't permit us to go any higher. I don't know how high we are right now, Mr. White are we at maybe 27 feet?

Mr. White stated close.

Mr. Rodi stated to Ms. Yarrangton, to give you some idea dimensionally, so it's just barely meant to go a little bit above the wall. But I would like for you to leave a picture of that if you may with us so that we can refer to it.

Ms. Yarrangton stated I did pass one out in December when I managed to come late. She then proceeded to give Mr. Rodi the picture she had held up and discussed, which he then forwarded to the recording secretary.

There being no further participation at this time, Chairman Allen closed public participation.

(4) General Manager's Report

(4-a) Financial Status November 2007:

Ms. Klinkenberg stated for the month ending November 2007 our change in net assets was \$579,738 for the combined system and our forecast reports reflected a \$379,000 unfavorable balance for the month. She asked if there were any questions.

There being no questions on those items, Ms. Klinkenberg stated she would like to mention last month she had spoke about the \$10 million investment funds that we received for the water projects. I wanted to kind of explain what happened there because I had said I was going to invest them in some kind of a tool to help us earn better interest. We did go out for bid for it, we did receive about six bids from companies rated anywhere from A to AAA, which is within our threshold. We had a fixed rate of 3.75% that was offered. She stated I think it was my own kind of skittishness feeling about something that was going on in the market and I kept researching. Well, two days prior to the closing there was a notice from Fitch that they put negative watches on many companies. The one

(4-a) Financial Status November 2007:

that we were scheduled to close with was one of them put on negative watch. It was removed the next day but due to the instability of the market, I was not willing to take any chances with our funds so I withdrew the bid. It cost us absolutely nothing, all the companies involved were willing to back out without any cost to us. I then left the money in our money market for the moment. I have a meeting on Wednesday with our bank, Bank of America, who has an investment tool that they've created that is specifically for bond proceeds. You can take that money, it tracks arbitrage for us, negative or rebates, and it's in a very, very safe, very liquid, very flexible, no requirements on it and no cost to us. It will pay, I don't remember the exact amount at the moment, but it's usually I think one basis point, she commented maybe Mr. Bilinski remembers. It's a small percentage off of what prime is.

Mr. Bilinski stated it was under 5, it's LIBOR (London Interbank Offered Rate), one one LIBOR .

Ms. Klinkenberg stated okay so it was one one LIBOR. She stated but right now in the money market we're earning 4.14%, it's a variable everyday interest rate. It's dropped steadily since we put the funds in, about 60 basis points since December 18th, but it's still earning more than it was earning if we had put it in the 3.75%. So we're working with that and should have that all in a nice safe spot.

Mr. Rodi stated there's another part of that and it's just keeping you informed. I mean I asked Ms. Klinkenberg to make those comments to you so you know exactly what's going on.

Chairman Allen stated we appreciate that.

Mr. Rodi stated because there's a lot of concern, and we are watching like everyone else is and doing the best as we can, because unearthing, as I've said before, in financial markets what's really happening is very difficult. He stated we're also watching too, as we have said to you before, we had received payment for land that the U.C. has sold to Venetian Bay. We've continued to earn more interest by investing it in our money market fund than what it is costing us from the FMPA loan. What we've said is when that threshold crosses over, then we'll pay down the FMPA loan. So we're watching that as well with this, I just wanted to give you a status update and I've done that every several months on that particular item just so you know where it is.

(4) General Manager's Report (cont.):

Chairman Allen then asked if there were any comments on the General Manager's Report. There being no comments, Chairman Allen stated one thing I appreciate Mr. Rodi, I noticed you used load management in the December peak. That's just like a unit on those peaks and I commend your operators for utilizing that Mr. Beyrle, and continue to look at that. If you'll notice the peak was 55.8 MW for December but if you added the 3 MW load management that you had on peak, you would be just a little bit above 2007's peak if you did not use it.

Mr. Rodi stated right. He added just as an aside we've seen some very unusual effects of degree days, the weather. It's been very unusual and part of what I think it will do is where we had expected higher load, we're seeing less load than what we even thought would happen, and where we didn't think we would be seeing load we did. We're also reviewing whether all of these devices

(4) General Manager's Report (cont.):

are functional, it's been some time since they've been checked so we're in the very preliminary stages because as we use more and more load management profiling to help manage our load, and put more of these devices on air conditioners and hot water tanks, eventually maybe we'll get into pool pumps. He added I'm not real excited about that. He stated they become very useful tools but then we have to be assured that they're still functional. So we're just beginning to chase that rabbit and see where it goes, but it has been effective for us, and I'm glad that the dispatchers are doing it too; thank you.

Commissioner Reynolds asked if the Utilities Commission was still offering financing for air conditioners with EER's above?

Mr. Rodi stated as far as loans go, yes.

Commissioner Reynolds stated have we publicized that in a news letter lately, I may have missed it but I haven't seen it.

Mr. Rodi stated I'm not sure that we've specifically addressed that part, we've talked about the maintenance of air conditioning systems but I don't think we've emphasized very much the loan features.

Commissioner Reynolds stated well with summer coming it might be a thought.

Mr. Rodi stated sure, thank you.

(5) Commission Counsel's Report:

Chairman Allen asked Mr. Preston if he had anything to report.

Mr. Preston stated he had nothing to report.

(6) Committee Meeting Reports

Chairman Allen confirmed there were no committee meeting reports.

(7) Old Business

Chairman Allen confirmed there were no old business items to consider at this time.

(8) New Business

(8-a) Fiscal Year 2007 Audit (Presentation by Brent Millikan & Co., P.A.):

Mr. Brad Douglas addressed the Commission and stated his name and that he was with Brent Millikan & Company, your independent auditors. I'm here tonight with Mr. Alex Kish. We're here to go over your audit presentation for the fiscal year ended September 30, 2007. I know you had an opportunity to read this thing from cover to cover over the weekend; I apologize for that. In any

(8-a) Fiscal Year 2007 Audit (Presentation by Brent Millikan & Co., P.A.) (cont.):

case I'd like to just hit the high points of what's in this report. It's a nice comprehensive annual financial report.

Mr. Douglas stated in looking at this some things that are worth noting, in the introductory section there's a transmittal letter. I just wanted to bring to your attention that on pages vi through xii, small case Roman numerals, you'll find information that's not contained or outlined in your management's discussion and analysis. Major initiatives and accomplishments during the fiscal year are outlined there, that's worth noting. Also worth noting is our audit report which is on pages 1 and 2. We render an unqualified opinion, in other words a clean bill of health. In the second paragraph we explain that the audit was conducted in accordance with generally accepted auditing standards and government auditing standards and we explain what an audit is. He stated and for just briefly, to give you a brief overview on that, it includes an examination of your financial records and supporting documentation of the underlying financial information represented in your financial statements on a test basis. Provides us with the basis for our opinion which is rendered in the third paragraph and that opinion provides reasonable but not absolute assurance. Because we're testing on a test basis your financial information we can't see every financial transaction. And that assurance is on the financial statements being free of material misstatements and the fact that the financial statements are in conformity with generally accepted accounting principals.

Mr. Douglas stated on pages 3 through 12, you'll find your management's discussion and analysis. This is where you're going to see highlights of significant inter-period changes, it's in an easy-to-read format with condensed financial information, some graphs are presented there. At a minimum, if you get to read anything within this report, and we've said it before and it bears repeating, at least read management's discussion and analysis. It's going to give you a good overview of the current year financial activities related to the Commission. The basic financial statements consist of your balance sheets which are on pages 13 and 14. The statement of revenues and expenses and changes in net assets are on page 15. And the comparative statements of cash flow is on pages 16 and 17.

Mr. Douglas stated after you see the basic financial statements, there's like 18 pages of required disclosures in your notes for the financial statements. And after that section you will see supplemental schedules that provide more detail on the operations related to each utility system. And we discussed last year, in your prior year report and it continues to be reported in this comprehensive annual financial report, is an expanded statistical section. If you just look at page 53 you'll see an overview of what the various statistical section's reporting consists of. You have financial trends that are on tables one through five. Revenue capacity information on tables six through eleven. Debt capacity information in tables twelve and thirteen. Demographics and economic information in tables fourteen and fifteen. And then operating information specific to the Utilities Commission in tables sixteen and seventeen.

Mr. Douglas stated after the supplemental schedule section in this report, you're going to find the supplemental audit reports. They're an integral part of our audit and required to be reported on the Commission's compliance with laws and regulations and internal controls and compliance over financial reporting. On pages 93 through 100, you'll see a management letter that's in a format prescribed by the Auditor General of Florida. It includes comments on prior year findings and current year findings. And you'll find that management's done well to address many of the prior year findings, only a couple of them were repeated, and implemented the recommendations

(8-a) Fiscal Year 2007 Audit (Presentation by Brent Millikan & Co., P.A.) (cont.):

communicated in prior years, and management's response follows on page 100.

Mr. Douglas stated on pages 13 and 14, you don't necessarily need to turn there but I just wanted to give you a few highlights on your balance sheet which is on those pages. The Commission reported total assets of \$177.1 million at the end of 2007 and that's as it compares to 2006 where you had \$169 million; so total assets increased \$8.1 million. The majority of your asset increase was attributed to your investment in utility plant. The amount of unbilled, underrecovered fuel and purchased power cost, which is a receivable, is a component of your unbilled accounts receivable. Just to give you an update on that, through September 30, 2007, that receivable decreased by \$2.1 million. And where it stood at the end of your fiscal year was \$2.6 million, and that's as it compares to \$4.7 million the year before. Liabilities at the end of the year for 2007, fiscal year, totaled \$77.7 million, comparing that to the prior year of \$85.6 million; your total liabilities decreased by \$7.9 million. So we know assets increased \$8.1 million, your liabilities increased (sic decreased) \$7.9 million. We're going to get to how that happened on page 15, for the statement of revenue and expenses and changes in net assets. Most of the liability reduction, just to mention that, was for scheduled long term debt principal payments. He stated overall your total net assets increased by \$16.1 million. Of that amount, and we're going to get to that in just a second, of that amount, approximately \$10.1 million of that net increase in your net assets came from developer donated in-ground assets that are valued and we have to put on the books.

Mr. Douglas stated statement two, which is on page 15, will show you good solid growth in your operating revenue. Even though it looks like at first pass your revenues were less, one reason for that is the Commission no longer has a Communications Division which had \$6 million in sales in the prior year. So that explains why operating revenues are down and why operating expenses are down as well. So what happened is, if you read management's discussion and analysis, you're going to see that some of the information seems contradictory. Like for instance, the consumption or the kilowatt hours sold seem to be slightly less than the previous year but yet revenues were more. Or the amount of mega-gallons that were sold in water or the amount treated for wastewater were down just slightly. Well, what happened, if you recall, after having your rate study delivered to you in March of 2006, there were some rate increases that took effect in June 2006, so you didn't see the full effect of those rate increases taking place for the year that ended September 30, 2006. But you saw a full twelve months financial effect of them in the year that ended September 30, 2007. So that's why you see revenue growth even if it looks like consumption was slightly down just a little bit. You know we do have periods where the weather does fluctuate and it can have an impact on what the Commission sells.

Mr. Douglas stated operating revenue total, if you look at schedule one, which is on pages 37, 38, you'll be able to see this information by utility system and if you compare that schedule one with the schedule one in the preceding year, you'll see that the electric revenues had increased by \$574,000, water revenues increased by \$540,000, wastewater revenues which include the reclaimed water or water reuse, increased by \$286,000. And as I mentioned, the Communications Division you don't have that revenue any longer, which decreased by \$6.1 million.

Mr. Douglas stated if you want to see a ten year history of what is reported on statement two and what is also being reported in schedule one on pages 37 and 38, you can go to tables three and four at pages 57 to 62. You'll be able to see a ten year history of what's been going on with the Utilities

(8-a) Fiscal Year 2007 Audit (Presentation by Brent Millikan & Co., P.A.) (cont.):

Commission, with its operating revenues and expenses.

Mr. Douglas stated the utility system net income, from its core utility operations, before capital contributions, the electric system produced a net change in net assets for a positive net revenue of \$3.3 million, the water \$485,000, and your wastewater \$520,000. So together, the net income before contributions total \$4.1 million, which is a solid return for one year. If you look on page 15, you'll notice that the capital contributions total just over \$12 million and as I had mentioned earlier, \$10.1 million of that is in non-cash, donated developer in-ground assets. With all the residential development and growth in the City, those developers are going to give you the costs of what they had put into the ground and they turn them, deed them over to the Utilities Commission and now they're our assets to maintain and they become a component of your rate base. So we'll be seeing depreciation expense increase over time as a result.

Mr. Douglas stated so overall when you look at the financial statements of the Utilities Commission, it's improved significantly. He stated primarily again, from increasing your investment in utility plant, with approximately 72% of that coming from those donated in-ground assets. And ignoring the losses reported in the Internet or the Communications Division, your core utility services produced a net income of approximately 7% of total operating revenue before counting the contributions from developers.

Mr. Douglas stated I tried to keep this brief on purpose because you know this document is voluminous but it does contain a lot of good information. He stated in going through this it's a matter of choosing, well, what are the highlights, what needs to be mentioned, we pretty much mentioned what are the highlights in here; tried to keep that focus on just that. One thing that you should be proud of is this report, the 2006 year anyway, the 2006 was the 27th consecutive year that you had a Certificate of Excellence in Financial Reporting issued to you, awarded to you by the Government Finance Officers Association (GFOA) and we expect that this report will be the 28th consecutive year that you have that.

Mr. Douglas stated before closing, I want to give thanks to Mr. Rodi, Ms. Klinkenberg, the Finance Department and her staff, because I know they have to endure us when we're here doing the audit and we can be all over the place driving people crazy. We do appreciate your assistance and we do appreciate the opportunity to serve you and thank you. He then stated I'm open for questions.

Chairman Allen thanked Mr. Douglas and then asked if there were any questions or comments.

Commissioner Diesen stated I have one, page 98, your recommendation, second paragraph, rate stabilization fund.

Mr. Douglas stated yes. Well, one thing that I did not go over and I want to make sure that I address that now that you've brought that up. The Utilities Commission has gone through quite a ride with the telecommunications division, we know that, and had suffered real economic losses. Just for the record, to clarify, if you want to know how much was lost, all you have to do is look at the 2004, 2005, and 2006 CAFR's, your comprehensive annual financial reports, and I believe the total of the losses were \$10.1 million; just to give you an idea. Well, it had a real effect on cash, other factors had a real effect on cash, most of the factors that contributed to having a negative

(8-a) Fiscal Year 2007 Audit (Presentation by Brent Millikan & Co., P.A.) (cont.):

balance in your unrestricted cash balance, a lot of that has gone away, obviously, by exiting the business in the first place, so that was a good move. And when you look at the recovery of that deficit, in one year it was \$3.3 million and we expect, I'm sure management does, that that deficit will be going away and that we'll be to the position where your unrestricted cash will start to have a positive balance. What happens, and we all know what the effect of the fact that the cost of fuel and purchased power does fluctuate, and let's put it this way, it fluctuates at an increasing rate lately; we haven't seen it go down. It took a while to look at the fact that prior, previous management had not really looked at having an updated rate study so current management said to the Commission let's do one and action was taken and you have a nice cost of study analysis and rate study. You've addressed the fuel and purchased power cost adjustment billing factor to recover that unbilled, underrecovered fuel and purchased power cost receivable which decreased by \$2.6 million in one year. So that helped to bring back some cash to the Commission. What will probably need to be revisited is when your unrestricted, uncommitted cash that you need for operational needs is restored, is to continue to use that Rate Stabilization Fund that's been used before.

Commissioner Diesen interjected used and abused.

Mr. Douglas stated it was abused, but it needs to be clarified again, it's just an internally designated savings account, it's the shock absorber cash flow management tool for the effects of rising fuel costs because by the time we've incurred the costs and out layed the money within 30 days from the vendor supplying us with that bill, it takes a while to determine what the effect of that is, and then we have to adjust our fuel adjustment accordingly. So there is a lag in the amount of cash when it comes in from the customers when its billed, versus when we have to pay our vendors. So that's all we're getting at and the Rate Stabilization Fund only needs to exist, in my opinion, as it relates to the electrical division, just to have a sufficient amount of cash for some of the shock absorber effect of these adjustments in your fuel and purchased power costs. It's an industry accepted practice to have such a Rate Stabilization Fund, it's just suppose to smooth out the effect on the consumer so you won't have to have such dramatic increases in that fuel adjustment billing factor.

Commissioner Diesen stated and I understand everything you've said, and I know that it's our choice if we choose to do that, that it's not mandated for us.

Mr. Douglas stated it is not mandated, it's just something where you know...

Commissioner Diesen interjected but it also becomes very attractive, an attractive pot of money as we've seen in the past that gets kind of pushed and pulled. I do not think that would happen currently, as the status and the way the Commission is made up, but I was interested and I wanted you to enlarge on it, because as soon as I see that it's like...

Mr. Douglas stated yes, the word's been thrown around in an incorrect way by parties we all are aware of and even, you would think, he would have known better in citing what he had and I think in leading the Commission down the wrong road as it related to some of those things which were totally unfounded. We did, just so that you know, incorporate a lot of these allegations into our audit during the current year, and we did follow up on those in the preceding year, and it just seems like their comments are repeated over and again, just twisted slightly differently, and we've have to address them. It's a shame that you take something of a concept like you do understand and that it

(8-a) Fiscal Year 2007 Audit (Presentation by Brent Millikan & Co., P.A.) (cont.):

was previously used differently.

Commissioner Diesen stated right, but you are recommending when we get to that point and have that amount of cash and the cash flows, that it's a good idea to have that little contingency fund over here.

Mr. Douglas stated yes, it's just food for thought, it's just a thought that you know, just as an aid for the Utilities Commission to be able to handle the cash flow effects of the timing of the difference between when we incur the costs and by the time we start to recover it from the customers. We can see that the amount of that unbilled, uncollected receivable can grow quite fast in just one year and it takes a while to recover it.

Commissioner Diesen stated okay, I just wanted to clarify that, since that has been just so misused and abused in the past.

Chairman Allen asked if there were any other comments or questions. There being none from other Commissioners, Chairman Allen stated I appreciate the extensive report, it's good, it's clear to read, understand, and it looks like we're making progress to get to the better side.

Mr. Douglas stated if you have any other questions, after you've had an opportunity to really read this, and you'd like us to come back or meet with you, just let us know, we'll be glad to do that.

Chairman Allen thanked Mr. Douglas again.

Commissioner Diesen commented she had stayed up all night and read it.

After a point of clarification, Commissioner Diesen made a motion to accept/receive the Audit for Fiscal Year Ended September 30, 2007. Commissioner Hall seconded the motion and it passed unanimously on a roll call vote.

(8-b) Membership in the Florida Cost Based Broker System, Inc.:

Mr. Tim Beyrle addressed the Commission and stated back in the 90's, as Chairman Allen will attest to, there was a broker system that the utilities in Florida used for creating hourly energy sales and purchases. In it's day it had great participation, it provided really good savings for the Utilities Commission and a lot of the purchasing entities in Florida, a lot of the utilities that buy on an hourly basis. Then around 2000 or a little before that, participation started to wane and eventually the broker system went away. In the meantime, since then, all hourly purchases are done essentially via phone calls or messaging systems on the computer, we don't have a real way to go out and get a real sense of what all is out there. Generally when you're buying hourly purchases of energy, you've got ten or fifteen minutes to decide what you need, to call a couple of suppliers, get the best price you can, and buy for that next hour. Quite a bit of what we do in System Operations is hourly buying, as I say in there we spent \$10 million just on market purchases in fiscal year 2007 and probably 15% to 20% is on the hourly market. What the utilities in Florida are proposing is to reestablish the Florida cost based broker system for hourly next-hour purchases of energy between the utilities in Florida. All of the major selling entities, including the Energy Authority that markets

(8-b) Membership in the Florida Cost Based Broker System, Inc. (cont.):

for several utilities, and FMPA which markets for a couple of the utilities, as well as all the investor-owned and all the municipals have indicated their interest in participating. Basically what this will do is give us one more tool to buy hourly energy and hopefully bring back some savings for the customers in our fuel and purchased power costs.

Commissioner Diesen asked was there any down side to this?

Mr. Beyrle answered no. We're under no obligation to participate.

Commissioner Diesen stated so we're not locked into anything.

Mr. Beyrle stated no, this allows us to be a participant in the broker system. We can bid for purchases or sales as we want, we don't have to do basically any purchases on this, we can still call our suppliers and purchase energy the same way we do now, but there is no obligation.

Commissioner Hall asked do we have more leverage by going to this broker system?

Mr. Beyrle stated what this does is it gives us more options. As I said, right now you may be able to call one or two people each hour, but you don't know, there may be somebody out there who's got some energy for sale and unless you call him and ask him, he's not going to sell it.

Commissioner Hall stated but, even if we join, we're not obligated to buy.

Mr. Beyrle stated no.

Commissioner Diesen then asked what's the cost to join.

Mr. Beyrle stated our portion was around, just under \$8,000 for the initial start-up of the online system.

Commissioner Hall stated and you can guarantee us of at least \$8,000 in savings by joining this.

Mr. Beyrle stated no, I can guarantee if it works as it did in the past, we should see at least that and more. Even a 1% savings on hourly purchases would pay for itself.

Commissioner Reynolds asked Mr. Beyrle, when this is up and running, could you provide, after a quarter or so, how it's operating to us.

Mr. Beyrle stated absolutely, and added we won't begin operating until January 2009.

Chairman Allen stated he had a question as far as hardware and where's the hosting going to be at and the maintenance.

Mr. Beyrle stated I don't think that has been entirely worked out, they have a year to work up the platforms. More than likely, all of the other tools that we use, the transmission and the tagging and all of that, all comes under one umbrella, OATI is the company that now provides FTMS, they

(8-b) Membership in the Florida Cost Based Broker System, Inc. (cont.):

provide transmission, they provide tagging. It wouldn't surprise me if that's the eventual vendor we use.

Chairman Allen stated okay, the other thing was as far as the algorithm, as far as what's out there to purchase and what's out there as far as a purchaser or a sale, how is that going to be, an algorithm where it kind of gives you an idea of what you have available to you.

Mr. Beyrle stated it's going to work pretty much the same way the old one did, it's going to match up your...

Chairman Allen stated it used to take the highest price and match for the lowest and work through that algorithm.

Mr. Beyrle stated and that's the way I read it's going to do it as well, there's a section on the algorithm itself.

Chairman Allen stated right, I was just kind of curious about that. The past broker system saved customers across the whole State of Florida millions of dollars. It actually started in the 1980's and we had a lot of avoided costs right here for our community and our customers and we participated very heavily. As a matter of fact, we used to get a report back from it on every hour whether you quoted, buy, or sell, and I used to use that to ask questions, why weren't you quoting buys and sales. You know theoretically when you're operating in an economical mode you should be able to quote buys and sales both. And the opportunities we had received from that, and a lot of people thought well there's no power out there and we're just going to have to start up the high priced stuff, and all of a sudden a quote, the broker ran and you'll come in there and instead of starting 10 MW of diesels, we bought 10 MW. So there's a great advantage economically to avoid higher costs, save our ratepayers on their utilities, for it to be implemented. He stated the big concern that I have, as they implement it, as everything started changing, the big thing that killed the broker system was the transmission and we still have those transmission constraints. Even just trying to get transmission ordered up and all the transmission taken care of, that's really what put it out.

Mr. Beyrle stated and part of what's going happen in there is it will check the transmission availability before it matches up a buy and a sale.

Chairman Allen stated and I hope it builds your tag for you.

Mr. Beyrle stated yes.

Mr. Rodi stated one other part of this, to fully answer the question, we can opt out relatively easily but we still have a residual if they were to shut this down, whatever the shut down costs would be, we would have to pay a proportionate share of that whenever that would occur. So I think that's the rest of the answer but there is no additional costs and usually those costs are less than the start up costs because at that point everything is known. Right now we're still struggling through what the algorithms going to be, I think we need to keep an eye on that, and we if you look at the incremental cost formula of this, we're trying to understand if this is going to be a true incremental cost because the words are a little bit loose. We'll be able to check it against market cost because we'll still

(8-b) Membership in the Florida Cost Based Broker System, Inc. (cont.):

be out in the market trying to see what the alternatives are, especially if we have transmission constraints. So as this thing plays out, it will give us reports that we don't get now and that becomes a monitoring tool, and then we'll also be able to check what the market costs are compared to this incremental cost. So I think it will be helpful for it.

Chairman Allen stated another tool.

Mr. Beyrle stated that's right.

Commissioner Diesen commented anything to save money.

Chairman Allen then asked for a motion.

Commissioner Hall commented it's time for that side to make a motion.

Commissioner Reynolds stated I'll make a motion that we accept this and approve the initial expenses of setting up the system (to approve the Utilities Commission participation and membership in the Florida Cost- Based Broker System, Inc. (FCCBS) and authorize the General Manager/CEO to execute the Member Agreement. Commissioner Zeller seconded this motion.

Chairman Allen stated we have a motion and a second to approve the Utilities Commission's participation and membership in the Florida Cost Based Broker System.

Commissioner Reynolds prior motion then passed unanimously on a roll call vote.

Mr. Rodi asked Mr. Beyrle if he had a question.

Mr. Beyrle stated there's an item also with the Tampa Electric, Schedule C.

Chairman Allen stated correct.

Mr. Beyrle stated that wasn't mentioned in the motion.

Chairman Allen stated I guess we need to add that, have a motion for TECO Schedule C agreement.

Commissioner Reynolds made a motion to approve the Tampa Electric Company's Schedule C agreement (approve the agreement and authorize the General Manager/CEO to execute same). Commissioner Zeller seconded and the motion then passed unanimously on a roll call vote.

(9) Possible Other Business – Time for Commissioners:

Commissioner Diesen stated I have to ask a question. Since we're going to have more and more joint meetings, and there are other joint meetings with the City and boards; how much do these things (microphones) cost. This is real problem when we have ten or twelve people plus and you have to share and people throughout the audience complain bitterly because they can't hear us and our backs are largely to them.

(9) Possible Other Business – Time for Commissioners:

Mr. Rodi stated we'll look into it.

Commissioner Diesen stated I really wish that maybe we could join with the City and get some additional mikes or whatever so that we can at least all be heard.

Mr. Rodi stated I think there is another ramification too. The City is talking about video streaming and if they're going to do video streaming from here then the pick ups for voice are going to become even more important. So we'll look into additional microphones and the capability of the system. The system is a City system, you know we can't mix our assets but we can look at it, adding additional microphones and then see what happens as the progression moves to whatever happens with video streaming.

Commissioner Diesen stated well if video streaming would require totally different equipment then I wouldn't want us to expend funds right now on that, but I think we've been looking into that for some time.

Mr. Rodi stated yes, I understand.

Chairman Allen stated I believe it all will probably somewhat integrate as you work it together.

Mr. Rodi stated yes it should, just use the amps.

Commissioner Diesen stated thank you, that's all I have.

Commissioner Zeller stated I had to escort an ancient uncle, the last Zeller male living in that generation to the old country this past couple of weeks ago. I stayed in a hotel in Santa Domingo that was having an energy convention. They had quaint samples of small windmills. The entire island down there doesn't have electric power, they're not blessed like we are here. I was just amazed at the sizes of the windmills, some of them are two feet in diameter, some of them were eight and ten foot in diameter; to feed farms. Mr. Rodi told me they now have new battery banks because you know the wind is not always blowing, so they can store and run. So I enjoyed that part of my vacation, kind of opened my eyes to what's available out there.

Mr. Rodi interjected a lot of exciting things coming.

Commissioner Zeller stated a lot of new things are going out.

Commissioner Reynolds stated he was honored and happy to be back in this Utilities Commission, it's people, and to be back with all the employees of the Utilities Commission, who I occasionally see now and then. It's a pleasure being here, thank you.

Commissioner Hall stated I forgot to advise the board of something. I had a phone call a couple of weeks ago, from an attorney named David Hood, who is representing Landmar. They wanted to talk to me about something that was going on and I referred them to Mr. Preston. I'm not sure if they called you or not, but I think I'm obligated to report that to the rest of the Commissioners.

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

Chairman Allen stated okay, thank you. He then stated he would like to make a couple of comments. He stated I appreciate seeing Mr. Reynolds back with us and I look forward to serving with him. I appreciate the staff and all they do and Mr. Rodi as he leads us as we see us moving forward, I appreciate that. And then also, just a comment on the joint meeting, it was, I feel, very productive to be able to communicate and get together and look forward to more working and being open and trying to really meet the needs of our community. It's good to serve under those terms and we can work together and develop that relationship in the future.

After confirming there was no further business to come before the Commission, Chairman Allen stated then a move that we adjourn.

Commissioner Reynolds stated so move.

Chairman Allen closed the regular U.C. meeting at 7:08 p.m.

APPROVED:

ATTEST:

Walter Allen III
CHAIRMAN

James H. Wilson
SECRETARY-TREASURER

These minutes were formally approved by the Utilities Commission at their February 25, 2008 meeting.