

AGENDA ITEM 2-a

MINUTES OF A REGULAR MEETING OF THE UTILITIES COMMISSION, CITY OF NEW SMYRNA BEACH, FLORIDA, HELD MONDAY, MARCH 17, 2008, AT 6:00 P.M., AT 200 CANAL STREET, NEW SMYRNA BEACH, FLORIDA

Chairman Allen proceeded with an invocation and requested Commissioner Hall 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 William H. Reynolds
Commissioner Oscar Zeller
Chairman Walter Allen III
Commissioner Jeanne K. Diesen
Commissioner William E. Hall

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; D. Wood, Customer Service Manager; J. Santrock, Senior Customer Service Supervisor; D. Zorge, Customer Service Supervisor; J. Lutz, Cashier/C.S.; D. Simmons, Executive Asst./Recording Secretary; and a few other U.C. employees; B. Preston, Interim U.C. Legal Counsel; Daniel Raymond (Business Mgr./IBEW); Bob Tolley, a member of the public.

(1) Agenda Changes, Additions and Deletions:

Chairman Allen then asked if there were any changes, additions or deletions to the agenda.

Mr. Rodi stated no.

(2) Approval of Consent Items:

Chairman Allen then stated item two is approval of consent items.

Commissioner Hall made a motion to approve the consent items, item 2-a. Minutes of Regular UC Meeting Held 2-25-08, approve as submitted; 2-b. RFP No. 02-08A – Transformer Stocking Program, approve and award purchase order number POOOOO7763, in a not to exceed amount of \$400,000 to HD Supply Electrical, LTD (for one year, option to renew for two additional year periods); 2-c. Glencoe Water Treatment Plant (WTP) Generator and Electrical Upgrades Bid Award – Bid No. 5-08, approve and award Bid No. 5-08 to Air Ideal, Inc., the lowest qualified and evaluated bidder, in the amount of \$965,000, and authorize the General Manager/CEO to execute any and all documents associated with this bid award (project to be funded from loan proceeds – WO# 08-RW039); 2-d. 3rd Avenue Storage Tank and Pump Station Bid Award, approve and award Bid No ITB 09-08 for this project to McMahan Construction, Inc., the lowest qualified evaluated bidder, in the amount of \$1,327,000, and authorize the General Manager/CEO to execute any and all documents with this bid award (project to be funded from loan proceeds – WO#08-RW047);

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

2-e. WWTP Operating Permit – Mixing Zone Study Revision, approve and authorize Black & Veatch to prepare the Mixing Zone Study as per the attached for an amount not-to-exceed \$35,000 and authorize the General Manager/CEO to execute any and all documents associated with this matter; 2-f. Revision of Street Light Rates – Scheduling of Public Hearings, approve scheduling of two public hearings regarding the revision of street lights for April 21, 2008 and May 19, 2008, for preliminary and final hearings respectively, at 6:00 p.m., prior to the U.C. meetings on those dates; 2-g. UCNSB Phone System Evaluation/Comparison and Proposed Replacement, approve the purchase of a replacement phone system from Cisco, inclusive of all hardware and software equipment and installation and maintenance for a three year period in the total amount of \$90,915.98. Acceptance of \$4,300 trade-in allowance from Cisco to be deducted from the first payment of \$41,157.00 due on October 22, 2008, and second payment in the amount of \$45,457.99 due on October 22, 2009; 2-h. Amendment No. 1 to Developer's Agreement and Addendum for Al's TV, approve Amendment No. 1 for this developer's agreement and addendum as submitted and authorize the General Manager/CEO to execute this document; and item 2-i. Amendment No. 1 to Supplemental Developer's Agreement and Addendum – The Palms Phase I / Hampton Village (75 residential units) and Amendment No. 1 to Supplemental Developer's Agreement and Addendum – The Palms Phase I / Hampton Village (204 condominium units), a motion to approve the above referenced two amendments and authorize the General Manager/CEO to execute these documents. Commissioner Reynolds seconded the motion and it passed unanimously on a roll call vote.

(3) Public Participation:

Chairman Allen then opened the floor for public participation.

Mr. Bob Tolley (803 Fairway) addressed the Commission and stated just a quick heads up. A Commissioner showed me about the meeting on Wednesday. The City is holding an economic development meeting and on the agenda is the issue about Swoope. I don't think it has any legs about the boat ramp but I just want to make sure that all the Commissioners are aware of it. He then asked Mr. Rodi if he would be attending the meeting.

Mr. Rodi stated someone will be there.

Mr. Tolley stated okay, well this way we can make sure we have Swoope covered for a little while until the Commission decides, or the U.C., on what we're going to do with it, so we won't be launching boats there this summer.

Commissioner Hall interjected that's in two years.

There being no further public participation, Chairman Allen closed public participation.

(4) General Manager's Report:

Chairman Allen then stated the next item is the General Manager's Report.

Mr. Rodi stated before Ms. Klinkenberg begins with her financial status report, one of the things I

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

would like to do, I asked Bonnie Sanderson to come here tonight. She was here to, obviously, provide any information on the phone system if necessary, but my real motive is I wanted to recognize her. Over the last several years she has very quietly done a tremendous amount of work in the I.T. area. She's done it very graciously, she's kept us out of trouble even when we should have known better, and I just wanted to acknowledge her. She has done well by us and I wanted to thank her publicly.

Chairman Allen thanked Mr. Rodi and added it's good to know that we have the quiet ones in the back corner to keep us straight; thank you Bonnie.

Mr. Rodi stated with that, we'll talk about the financial status.

(4-a) Financial Status February 2008:

Ms. Klinkenberg stated for the month ending February 2008 our change in net assets was a negative \$208, 865 for the combined system. Our forecast reports reflected a \$393,621 favorable balance for the month. She then asked if there were any questions about specifics.

Commissioner Reynolds stated on the decrease in revenues, in those areas, I know that we've had a fairly mild winter, I know that we've had rain, which is great, and I just wondered if those were the causes for what's happening.

Mr. Rodi stated I think outwardly they are, overall we're tracking now cooling and heating degree days, and we see quite a variance from what traditionally has occurred on average here. We do know that there's some effect from conservation, but until we get to the point of measuring that in a sophisticated way, that's just speculative on our part. He then asked Mr. Beyrle if he would agree the weather's had a very dramatic impact on how our revenue flows go.

Mr. Beyrle confirmed yes.

Mr. Rodi stated I think if you look at surrounding utilities, whether it's Progress, FP&L, you can see that all over the state too; generally revenues are down 5% to 7%.

Commissioner Reynolds stated the other question I had in that is the cost of personnel. Since we've leveled off in construction and things like that, are we taking a close look so when we come up with our next budget that we're in a good position to say here's our manning and why.

Mr. Rodi stated our manning was never structured for growth. Our manning was actually, and has been, structured for revitalization of our assets. Part of what we've done with our projects is to match the CIP needs for what is expected for rehabbing the system. Then the growth components, as you recall, we put into a different category with the addendum fees. Generally those projects are either bid and done by contractors which is outside of our standard work force, or the actual infrastructure is being installed by the developers who are so capable to do those kinds of things. So we've been very careful about how we've addressed our work load and additionally we have added priorities. Part of the benefits of those studies, and I see that Brad Blais is here with us tonight, thank you too Brad, is that if you recall, the water study, the wastewater study, and reuse,

(4-a) Financial Status February 2008 (cont.):

there were a number of projects listed and then there were some priorities. Some were immediate, some were longer term, and then some were very long term. But within those studies were hundreds of smaller projects that indicated where we needed to improve our system. So consequently what we've been doing is to structure our projects based upon a priority schedule and the most important priority is obviously when it's broken, you have to fix it. But then we have different grades beyond that point, one where there's a component that may have failed, then we'll address that component at the appropriate time so that we don't have a damaged component that takes down the whole system. So we have a whole series of priorities, I think all together we have six of them, and Mr. White just loves it when I say please redo the priorities again because they take a constant juggling. So that's how we've been approaching it, so our manning's pretty well matched to what our needs are.

Commissioner Reynolds stated one more question, looking at the Internet losses, is that something that's going to continue, and what do we tell our customers.

Mr. Rodi stated the Internet losses are going to continue. Basically we have a structure, and I've been following this with the Commission because it's been the Commission's counsel to remain in the Internet business. We've reduced a number of personnel in that area so that we're basically running at a bare bones minimum. We've just added some features to the Internet for customer retention and we're really at a price point because most of this is dial up. We're about as high as we want to go in the marketplace right now for Internet services. So the long term forecast for Internet is basically focused on whether or not we can have our fiber system deployed enough, then to combine it with the wireless, and then pull in more Internet customers that way; that's our little niche. We haven't decided to go and market more regionally. What I mean by that is going back into the southeast because this Commission has said we want Internet basically for local. But, he added unless we increase revenues, the people that are there have the capacity to do more, but by covering all the shifts, we have built in cost structure. So that's sort of where we are right now.

Commissioner Diesen stated the contract runs out when?

Mr. Rodi stated actually we're affected by the telecommunications act that was passed in June of 2005, that's 1322, so we have a four year period, we have until 2009 to look at that. At that point, we'll have to bring it back to the Commission to decide do we continue, and what do we do with this structure. In the meantime, we'll continue to make some other changes but basically we need to expand based more upon the bandwidth and the only way we can deal with that is combination with the fiber and also then hanging the wireless on the end. Even today I saw the splicing truck out back, we're connecting fiber over to Field Street I think this time. So we continue to install the back bone and once we get there, then we'll have a little better opportunity.

Commissioner Diesen stated what's your estimated time of arrival?

Mr. Rodi stated I think this is one of those that's probably at least a year before we can see anything. We're constrained at this point financially so we're limiting the pace that we go. For example, when we install the 20" water line, we intend to pull fiber with that. We've been putting fiber in as we've installed water lines so it provides some excellent opportunities for us to do it as a pay-as-you-go approach.

(4-a) Financial Status February 2008 (cont.):

Commissioner Diesen confirmed the U.C. was not accepting any new wireless customers.

Mr. Rodi stated no, because all we've done is we're maintaining the existing base that we have until we're ready to deploy, but as of this stage, until we get the fiber backbone, with the height limits that we have in the community for pole heights and mounting antennas, then the only opportunity we have is to get the fiber there and then hang the wireless on the end of it so that we can cover a more effective area to make up for the lack of pole height.

Mr. Rodi confirmed there were no other comments about the financials. He then stated I wanted to emphasize again in the General Manager's Report you're going to see a transition occurring over however many months it takes, we're going to more strategically report. There's a lot of fine detail in those reports but I think a lot of what is of greater interest to the Commission is the strategic initiatives and how we're doing with things. Those higher level tactical actions we're employing and how successful or not we are with them.

Mr. Rodi stated with that I have asked Ms. Mahle, if she would, to give us an update on some of the conservation items. I think you might find some of her information interesting.

Ms. Mahle addressed the Commission and stated I've been trying to follow up with some of the ideas that were presented during a UC/City Commission Workshop in January. One of the things that was mentioned, I'm calling it a "Green Fair" for lack of a better term; a renewable conservation fair. Right now it's very, very preliminary but we're working with an organization out of West Palm Beach, called the Alternative Energy Association. They're a non-profit, and they've put together a couple of these things, and they're an infant group themselves. We're aiming for it on September 6th and 7th at the Brannon Center, Riverside Park. I'm calling it a "Green Images" for your conceptual purposes. Their association, the Alternative Energy Association, is going to be getting the vendors. I've asked them to focus specifically on vendors for residents, things that homeowners can look to. Goods, services, and ideas, not some pie-in-the-sky if I had a million dollars we'd all live in a zero energy home, but something that homeowners can actually implement within their own budget and their home area. So we're working diligently with that organization to put that together and also if you all have any preferences or ideas on things that you'd like to see. I've already gotten some feedback from the community as far as things they would like to see, so it's kind of a work in progress. So that was September 6th and 7th. The other thing that we were looking toward is there has been some demand for water conservation rebates, although rebates for water conservation is sort of a difficult thing to do. So we're looking toward what's called a buy down program, where we contribute x number of dollars toward something, and the customer contributes x number of dollars, and they get something. So we're looking towards that for low flow shower heads. There's a local company, out of Edgewater, that produces 1.3 gallons per minute showerheads and they're very high quality. This organization is probably going to be at the fair so we're looking to do a buy down program with them. They'll give us a reduced rate for showerheads, and we'll contribute the money, and let customers go and pick those up for themselves and pay the remaining balance. But that's not until the next budget, I just wanted to give a heads up on what we're looking toward for the new year as far as conservation initiatives. She then offered to answer any questions.

There being no questions, Chairman Allen commented sounds great.

(5) Commission Counsel's Report:

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

Mr. Preston stated no report.

(6) Committee Meeting Reports

Chairman Allen confirmed there were no committee meeting reports.

(7) Old Business

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

(8) New Business

(8-a) Agreement for Sale and Purchase of Capacity and Energy Between Progress Energy Florida and UCNSB:

Mr. Rodi stated at the last meeting Mr. Beyrle made a presentation to give you the overview of the proposed contract with Progress Energy South. I don't know if you've had the time to read the contract itself, but there's obviously a lot of language in there and a couple of really important pages. The rest of it is also important but it doesn't deal with the essence of the contract. He stated with that said, he would ask Mr. Beyrle just to make a few comments.

Mr. Beyrle stated as Mr. Rodi said, at the last meeting we covered the "meat" of the contract which was the dollars. We saw how this changes from the current contract, and what you have before you are essentially the terms. And again as he said, there's two pages of terms and 27 pages of legal documents. But it's a fairly straight forward contract on our part and on their part as far as we're buying 25 MW of firm capacity, which is equivalent to their customer base. We will have firm transmission to get it to us and it's a product that's based on their average energy price just as our current contract is, and it's a five year term. If there are any questions about the contract itself, I'll be glad to answer them. He added John Warner, who is our account representative with Progress Energy, is here as well.

Commissioner Hall stated I just want to be sure that everybody understands that the cost of doing business with Progress Energy, or anybody else, over a five year period is not set in stone because of conditions beyond our control, right.

Mr. Beyrle answered the energy costs aren't.

Commissioner Hall stated yes, okay, I just wanted to be sure that the newspaper people picked that up. Hopefully it's going to be in our favor and Progress Energy's favor but no one knows that crystal ball.

Mr. Beyrle stated right, our fortunes are kind of tied to their fortunes as far as energy prices go.

(8-a) Agreement for Sale and Purchase of Capacity and Energy Between Progress Energy Florida and UCNSB (cont.):

Mr. Rodi stated I just wanted to comment there's another provision, and Mr. Beyrle mentioned it last time. I think it's important to note again and it's in keeping with what Commissioner Hall just pointed out. In addition to changing fuel prices, and I think today oil was at \$114 a barrel...

Mr. Beyrle interjected it came down to \$106.

Mr. Rodi stated okay, and of course regarding those numbers, when we got above \$80 a barrel that was I think a milestone marker. But in addition to all of that concern and angst, there's also the issue of what's playing out here in Florida and also nationally. I wanted to emphasize it again because in some of the 27 pages, Progress rightfully points out, that this contract does not include the unknowns that may be levied with regard to, say a carbon tax or some type of user fee, or whatever else. Of course those kinds of fees would be applied in a non-discriminatory manner, but if they're based upon carbon fuels then there's a greater impact based upon the generation mix. So obviously Progress Energy has a pretty good mix between nuclear and fossil fuels. I think it was important for me to emphasize that point in light of what Commissioner Hall just said.

Commissioner Reynolds asked if Mr. Preston or someone had reviewed the contract from that standpoint.

Mr. Preston stated yes, extensively actually, before last meeting and then again following this.

Chairman Allen stated one question from my side, on the transmission, is it your feeling the transmission's going to flow through Progress Energy.

Mr. Beyrle stated yes.

Chairman Allen interjected I would hate to think of any other way.

Mr. Beyrle stated we did get the roll over rights on our current contract, that we will be able to get firm transmission from Progress Energy.

Chairman Allen stated great, and confirmed that's the reason for the five year. He then asked if there were any other questions. There being none, he stated it's a lot to read, it's a lot different than what I've seen in the past, and knowing that we're dealing with a whole new beast in this day and time compared to eight years ago. So with that he asked if there was a motion to approve the agreement for sale and purchase of capacity and energy between Florida Power Corporation dba Progress Energy and the Utilities Commission.

Commissioner Hall made a motion to approve the Agreement for Sale and Purchase of Capacity and Energy Between Florida Power Corporation DBA Progress Energy Florida, Inc., and the Utilities Commission, City of New Smyrna Beach, Florida, authorize execution of same after final approval by the City Commission, and authorize forwarding agreement to the City Commission for their approval by ordinance (agreement is a five year contract and requires a first reading and public hearing – second reading). Commissioner Reynolds seconded this motion and it passed unanimously on a roll call vote.

(8-b) Taxable Fringe Policy and Procedures:

Mr. Rodi stated this sort of started with a review of benefits. As you recall, Ms. Perez, after the last session of negotiations, was also going through our employee benefits overall for the U.C. Part of what interjected itself into this process was we started to talk about cell phones, and we've struggled with the cell phone policy for months. We were approaching some internal consensus when we were advised that we really needed to take a hard look again at all of the related items from the IRS perspective. So what's occurred over about the last month to six weeks is both Ms. Klinkenberg and Ms. Perez have been working with a number of people to formulate not only a recommended policy but then the structure of what makes that policy work. He then turned this over to Ms. Klinkenberg.

Ms. Klinkenberg stated as Mr. Rodi said, this has been a really long work in progress. I want to acknowledge we actually worked a lot with Brandy Keehn, who works under Mr. Rodi and Mrs. Simmons, has been extremely helpful. But back in November is when the grumbling started, started hearing about other cities getting audited by the IRS and coming down with huge fines and penalties, to the employees as well as the employer. So we started doing some research and a lot of it turned out to be actually prohibitive to doing the job. It was very, very difficult how we were going to comply with this and not get in trouble with the IRS, and at the same time still do our jobs. Then we started hearing that big groups like FMEA, FMPA, APPA, were all going to the IRS saying this is ridiculous we can't perform our duties. So in response, and I thought it was a very quick response, in January 2008 the IRS issued a clarification that they call a Guide for Federal, State, and Local Government Taxable Fringe Benefits. Receiving that I dug through 39 pages of IRS code, worked with Ms. Perez and Ms. Keehn, and we came up with a plan. We can be in full compliance if we pass this policy, it's very unprohibitive to the jobs now. There's also coming down, keep our fingers crossed in the near future, they're going to ask the IRS to consider cell phones specifically to be considered like the phone at your desk. It is the same tool these days and it shouldn't be taxed, so that could be coming in the very near future.

Ms. Klinkenberg stated the big ticket items that they were hitting were cell phones, uniforms, vehicles, travel, and the overtime meal allowance that we pay. We've come up with a plan for all of it, and it's very minimal cost to the employee. There will be a tax because it is a taxable benefit to them, it will show on the benefits side of their paycheck, and they'll actually see what benefit they're getting from this item. The FICA taxes, Medicare, and Withholding will be impacted. As an example, so you know how much the impact is because it sounds big but it's not. If an employee's uniforms cost \$600 in a year, because we provide five uniforms and a winter jacket, if it was \$600 in a year, which I'm not saying that is the amount, the taxable benefit would only be about \$1.77 per payroll period, which is every two weeks. So I mean that is minimal, and when you think about that we are providing the clothing for them. If we weren't providing clothing they would have to buy a full wardrobe to come to work. With the vehicles, we have this one rule that we qualify for that most don't, it's called the \$1.50 rule. If we want employees to take home a specialized vehicle, it doesn't have to be the line truck, line trucks and bucket trucks are completely excluded, but if we want, for our convenience, that an employee takes a truck so that they can respond quickly, then we only have to charge them \$1.50 for the commute home and \$1.50 for the commute back to work in the morning. That comes out to a whole \$1.15 in taxable benefit, that's not even a fraction of the gas. So it's really a very small impact to the employee and they truly are benefits to the employees that most of them don't even realize they're getting. Ms. Perez has worked with the Union, and I think I saw Mr. Dan Raymond come in, the head of the IBEW, and

(8-b) Taxable Fringe Policy and Procedures (cont.):

she's worked with them about how it impacts the employees.

Ms. Klinkenberg stated one other note, in a state of an emergency, all rules are out. There's no requirement whatsoever if we're under hurricane watches, tornados, anything like that. There's no benefit whatsoever because it's all for our benefit.

Commissioner Hall asked what about a local emergency declared by Mr. Rodi.

Ms. Klinkenberg asked for an example of that.

Commissioner Hall stated the break in the water (sic wastewater) main out west of town a couple of months ago, that was an emergency.

Mr. Rodi stated yes, it was, but I think what is more appropriate are the tornados for example that came through. It's meant to be more of a community wide emergency than it might be an individual emergency. It's just like we had a water main break that affected 40 homes beachside. In that area, for those folks, it was an emergency but for the rest of the community it wasn't. So when it gets to be more widespread, like FEMA was in here, then I think those rules would apply.

Ms. Klinkenberg stated we're not going to stop them from taking the trucks home. I was just talking with Mr. Mitchum before the meeting, he was talking about his line crew leaders. They are in the ditches, they are out there with the guys. If we had them take their own vehicle home, come back to Field Street, I believe is where they pick up their trucks, and then go out to the site, it could be a significant reduction in our response time; that we're not going to allow. If it increases our response time, we're going to let them take the truck. You know they'll get the taxable benefit for it but they're still going to take the trucks home. We're not going to do anything that will slow our response time. That's where we're lucky that we qualify on this and it's because of the nature of our business that we do.

Chairman Allen asked if there were any other questions.

Commissioner Reynolds stated yes, and stated to Ms. Klinkenberg, taking your example there, it's a little over \$40 per year. It doesn't sound like much but you know \$40 is \$40, so what do we do with that. Is that something that we have to take a look at in terms, is there other compensation measures that would offset those. I don't expect an answer now, but you know it seems to me that we should take a look to see that the employee... I realize it's an IRS issue, it's not our problem.

Mr. Rodi stated I think it's in the same category as when IRS changes a taxable table. A lot of these benefits have always been in that category, it's just that the IRS hasn't chosen to enforce them. So now we're into they are enforcing, and so what we wanted to do was make sure that we were compliant, not only for our sake, but for the employees' sake too. It's not any different than the property appraiser saying your house is worth a whole lot more than you think it is for tax purposes.

Chairman Allen stated it's more important to get in compliance so you don't get into having alleviate any issues that would be adverse to us and also to the employee.

(8-b) Taxable Fringe Policy and Procedures (cont.):

Ms. Klinkenberg stated and we wouldn't want to get into the issue that happened up in Jacksonville. They had where all their employees had to refile their taxes for two years, had to reissue W-2's for every one of them, and the employees had to pay the penalties, the fines, and the additional taxes on three years worth of a taxable benefit. We don't want that to happen, that's why we were being proactive with getting this done.

Chairman Allen confirmed there were no further questions or comments, and then asked for a motion.

Commissioner Hall made a motion to approve the policy on taxable fringe benefits (copy attached to the agenda item), to be effective May 1, 2008. Commissioner Zeller seconded the motion and it passed unanimously on a roll call vote.

(8-c) Capital Improvement Plan (5/10 Yr. FY2009-2013 / 2014-2018):

Mr. Rodi commented this is a long drink of water here, there are so many parts of this, but what you see in front of you is a continuation of the capital program that we really initiated in 2006. A lot of the projects should be somewhat familiar to you, and we have, over the last several years, worked our way through some of the higher priority items. For example, the Field Street transformer, and a lot of reconductoring down on the south beach, those were critical components and I know that Mr. Mitchum has been working to reductor certain areas where there hasn't been sufficient capacity. So as you can see from the overall remaining amounts for the electric area, it's pretty well focused. We're working from, again, our study on what has to be done with the electrical system and we're gauging that based upon outage performance and what we see still in the growth area. We're still having about 2% growth, even in this economy. I might add, even in the water area, we're seeing a little bit more than 2% in water and almost 3% something in wastewater.

Mr. Rodi stated in looking at the water and wastewater areas, we focused on the 20" main and of course, the pumping stations on each end. And what remains yet, falls more into the wastewater category and there are some pretty striking needs that still remain. Some of them are starting to fall within the structure of pay as you go. For example, we have a couple of \$100,000 that we put into upgrading certain existing facilities that have been there for a long time. And there are a number of locations that are like that, so we thought we would take a little piece of it every year and just start a program to work through it. On the other hand though, there are some important investments several years out with the addition of another module, if you will, to the wastewater plant. Part of what we're examining right now are alternative technologies that may even replace that approach for us which is pretty traditional, but nevertheless we're trying to anticipate when that 70% capacity factor would come. With the slow down in the economy, it's lengthened that, but we still have put it on the 10 year forecast just so you can have a sense of where it might occur. We have some beachside areas in wastewater that deal with lift stations, where we have some very inefficient systems, one pumping into another making a big round robin, and we have some gravity systems that need to be upgraded.

Mr. Rodi stated so in summary what you'll see is the need for external financing. In electric it's almost nil over the five year period, for water it's similar, but in wastewater there's a pretty significant, right around \$3 million a year, maybe a little more than that. What we're working off of

(8-c) Capital Improvement Plan (5/10 Yr. FY2009-2013 / 2014-2018) (cont.):

is the hard work that Brad Blais and his firm did for us. That has been very, very valuable to us in helping to prioritize and to keep our focus. My comment, previously when I answered Commissioner Reynolds about matching our assets, what we're trying to do is rehabilitate assets that are reusable and upgrade those, and then invest in assets strategically where we really need to. While we're doing that, we're trying to find alternatives for even these projects that are being carried on the books, so that if we can find another way to finance that project or replace it with some partnership or some technology, we're working on that. Part of one of the R&D projects addresses the bio-solids, it's a nice word to help describe something that isn't so pleasant, but if we're able to treat the bio-solids differently than we do now, and if there are regulations that require us to change our methodology, and they're on the horizon, then we may be better off adapting to a new technology that would deal with that. Maybe make that by product an asset, something that has value, where right now it's just an expense. So I'm sort of talking very generally about something that's very specific that we are working on, but under our confidentiality agreements we're being careful about what we're revealing but trying to encourage you to allow us to have a little longer "leash". He stated with that opener, I'll turn it over to Ms. Klinkenberg.

Ms. Klinkenberg commented to Mr. Rodi, you said everything. She stated my comments are mostly financial, and if you have questions specific of the projects, Mr. White is here. This year's CIP, just for 2009, that's the one I really have to focus on for the budget year because it's difficult to project what our projects are going to be and then make our budget fit that. And to make sure I didn't overburden any division with the amount of funds that have to come to cover R&R. So this year's, for 2009, the total projects were about \$7.7 million and only \$3 million is from grants or alternative financing, and like Mr. Rodi said, the majority of that is under wastewater and reuse. I have a listing of each project that's included in the financing if you would like to see that.

Ms. Klinkenberg stated when we looked at the projects we tried to anticipate any new regulatory compliance issues that will be coming up and the ability of the division to handle the costs. The way we come up with the mandatory transfers to R&R, and added I'm not sure if all are familiar with that. She then asked Mr. Rodi if that was in our Charter.

Mr. Rodi answered in U.C. Resolution No. 28-78.

Ms. Klinkenberg reiterated in Resolution No. 28-78, that says how we calculate it, and it's based on two years ago prior revenues, it's 8% of that. So we do that, and we usually do more to cover the projects that are required to maintain our system. I would say the majority of the reduction was over \$18 million from 2008. I have the reconciliation of that also if you would like to see what changed from one year to the next. Based on the current state, we reduced all our projects to only those necessary for rehabilitation and stability of our system. For the five year period, the CIP was reduced from \$83 million down to \$45 million, which is a total of a \$38 million reduction. She then offered to answer any questions.

Chairman Allen stated over the period, and having to go out and get other monies for some of these projects, have you gotten a feel for how that's going to impact, as far as the rates.

Ms. Klinkenberg stated I haven't thought about that yet, we do have a plan when we get the money about how we're going to handle it.

(8-c) Capital Improvement Plan (5/10 Yr. FY2009-2013 / 2014-2018) (cont.):

Mr. Rodi stated part of what we will be doing is making a presentation of a combined CIP and O&M budget. The part of this process that I don't like is that you see something in parts. The CIP also affects long term O&M costs and vice versa. We're currently putting together our O&M costs so that when we lock that down we'll have some sense of what we're facing with regard to our rate structure. Compounding that, we also have the issue of conservation and one of the strong incentives for conservation is financial. So there's a delicate balancing act that we have to go through between assuring that there's adequate income to maintain and operate the system, and likewise, to conserve the energy or the water, find better ways, and obviously, for ourselves to do the same things. But when you do that, if you take it to its logical conclusion, I'm talking about energy and conservation, reducing it down, you still have the basic infrastructure. Therein old rate theory doesn't do very well, so you tend to have new methods that are used for rate structures. So until we put together our O&M, we're not quite sure where our rate structure will be for next year. It would be good to hold it where it is but at this point we're not sure just exactly what we're going to do with that, and we recognized that in this economy as well. That's part of the reason why we shifted so much this year because in all of the forecasts a lot of the growth initiatives are pretty much parked, so we scaled those and throttled those way back. The infrastructure fees will take care of themselves, so as developers come forward we work with them, and we've worked very, very hard with them, and they with us too, I don't mean it to sound one sided. So we're just trying to gauge all of what's happening, and you can see with some of the emails that I have sent to you, it's a pretty interesting market. It's just like we had our discussion about nuclear energy and we passed on Levy. You know there's a great deal of effort Progress Energy has put into trying to push that Levy Project forward, because at this point if you look in Florida it's very hard to get any kind of a coal plant through, so what alternatives do you have. There isn't the scale for a company like Progress, with 1.7 million customers, to accommodate that growth which would be in megawatts. For us, we just dealt with a little 25 MW customer, and they may have a single customer that's at 50 MW's. So there are a lot of those issues that we're trying to take into account with regards to the balance between what our customers can afford, and also what we need to provide to them. And it's even more difficult this year than it was last, so we'll try and give a straight up answer on that when we finish the O&M.

Ms. Klinkenberg stated when I did these calculations, I did use it based on the current rates that we have now.

Chairman Allen stated okay, and added I do appreciate the forward thinking due to the technology and the changes in the future of Mr. Rodi and the staff. To not be locked in and just thinking about old technology, but there's a lot of things that are on the horizon that can impact our future. The other thing is when you look at cost, and as costs continue to go up, that draws us closer to the different technologies that may even be more beneficial. So that was just some of my concerns on that and he reiterated I appreciate that forward thinking.

Mr. Rodi stated I wanted to make one comment, in this CIP, there are dollars assigned for continuing with the water harvesting development at I-95. What our next step is, we made a submittal and it was rejected, we wanted 444 funding, so until we can give some technical information, we're sort of caught in this catch 22. So our next step is to probably drill a pilot well, at 1,200 ft., take very good measurements along the way, because we think that is a viable water source. I think if you have read some of the other documents about the litigation that's beginning

(8-c) Capital Improvement Plan (5/10 Yr. FY2009-2013 / 2014-2018) (cont.):

between Jacksonville and Orlando over water, and some of the most recent documents about Flagler looking at desal, and looking at some of the nine times the cost, our little ASR approach may be very beneficial. But our first step is we've got to drill down to that depth, learn what we can learn from it, before we can take another step with that approach. There are dollars in there too for reusing the Sugar Mill water tank for storage for reuse. During times of the year when it's really wet you don't need that storage, but when we're running low, any amount of storage, and that's a half million gallon tank, we'll be doing that. And of course, we intend to put solar and wind generation on the remaining balance of those two sites in Sugar Mill. So this is the first step, you see some dollars that are in there for that, to help with the water harvesting project.

Commissioner Diesen asked how is St. Johns feeling about that?

Mr. Rodi stated I don't know how to answer that. At first it started off that the staff thought it was a pretty good idea, the upper levels didn't think it was such a good idea, and then the fireworks started between the big folks. What we're basically dealing with is a need for scientific data and what we're trying to work through is probably a pretty good water model that has some data that isn't tied to any reality. So what's occurring now is we've joined up with another group to share our data, and then plug it into the model, and then we'll all probably feel a whole lot better about what we can do and what we can't do as far as available water supplies. Even regardless of that, our need for irrigation water remains, and if we can't pull it from the surficial aquifer, we stand a pretty good chance of pulling it from the upper part of the lower Floridan. But then there are some technical issues about whether or not there's any kind of leakage that might occur between the confining layers. So as we drill this 1,200 ft. well, there are those kinds of issues we need to work through. It becomes a lot more technical than anyone cares to want to talk about but it's very critical for our future. So that's why we're going to start taking the steps that we can take and hopefully, we'll get some funding and support. Once we announce some of our R&D projects, I think there will be a tremendous incentive to want to support that ASR because we're still taking a combined approach of both water and energy, and there's some leveraging there.

Commissioner Reynolds stated a question, knowing that you're gathering data, we try to gather all the things that we think we need, and usually bureaucracies will find after you do this there are other things that they have thought off that you bring up. Is there any way to model this so that we can sort of say this is the data we're collecting, how we're collecting it, specifically what we're doing, and then say you agree that we do this.

Mr. Rodi stated I think what we're doing is, and there are others that have done ASR's, that's nothing new, but we have experts like Brad Blais and others who can help us obtain the data at the right time and do it properly. I think what will happen is as everyone comes down this road, it may become a little more objective in what people are asking of us. You never can deal with the unexpected but we try to deal with things as best we're able to. I think Dr. Missimer is obviously working with Mr. Blais, and of course we have internally Jim White and Dave Hoover, who are going to help get the pieces that we think we need as we go through this.

Chairman Allen confirmed there were no more questions or comments. He then asked for a motion to approve.

(8-c) Capital Improvement Plan (5/10 Yr. FY2009-2013 / 2014-2018) (cont.):

Commissioner Reynolds made a motion to approve the proposed 5/10 Year (FY2009-2013 / FY2014-2018) Utilities Capital Program. Commissioner Zeller seconded this motion and it passed unanimously on a roll call vote.

(9) Possible Other Business – Time for Commissioners:

Mr. Rodi stated I have a couple of items, one of them would impact Chairman Allen if he would agree to do this. With some of our R&D projects, I would like to be able to call upon Chairman Allen to meet from time to time with us with some of these companies. Obviously when we're reaching the point of a critical determination, we'll be bringing a proposal back to the Commission. But I thought it might be very helpful, if you would allow me, to invite him in at certain times with some of these companies. So I'm asking for that and I just wanted to publicly bring it forward here. He asked if there was any problem with that?

Commissioner Diesen asked if Mr. Rodi needed a motion?

Mr. Rodi stated no, all I need is that I wanted to discuss that and make sure you all had a chance to comment on it. I'm hoping that he will agree to do it, I'm being somewhat presumptuous here.

Chairman Allen then asked if there were any comments.

Commissioner Hall commented go for it.

Mr. Rodi then stated just as information, the U.C., for some time, has had net metering, there's not been a very sophisticated policy on how to deal with net metering, and there's a lot of aspects to it. What we've done internally is we put a draft together of how we wanted to handle 10 KW or lesser renewable energy sources, principally solar, and we're then waiting on some of the outcomes from Governor Crist's initiatives. One of the things that's happened is that the PSC has passed regulations now that deal with net metering. There are three categories of net metering that basically apply to groups larger than us, over 500,000 MWh's consumption per year under the PURPA regulations. But we're not quite sure exactly what all of the components are, so that's one element that is intended to encourage renewable energy, and almost all of the mandate applies to investor-owns. Municipals by and large have a reporting requirement that's due, I think April 1st, which is reporting on what we have today for net metering. But then there are a number of other programs that go with it. Well, anticipating that all of this was going to happen, there's a much broader category that falls behind this. Some of this deals with stand-by generation, for example, some customers may decide that they want to generate on their own depending upon the state of technology. So if that begins to happen, it's net metering on a very, very large scale. If you look at net metering which essentially says we're going to give the retail rate to the generator, if you figure our rate is running right around a little over 12 cents a kWh, you pay that to this person for the kWh's they generate back on to our system or any of the other systems around the state. If you take that to its conclusion, and if everybody had it, you can see right there we couldn't afford to have net metering. But the policy was passed, at this point in time, to encourage renewable and basically solar sources. We don't know where all of it's headed but very shortly, I think what I will present to you is a new tariff that will include net metering and some of the stand-by generation anticipating where the whole industry may be going. Initially, the way I think I'll communicate this is I'll send

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

you an email, because right now the draft is pretty extensive. It's very complicated and it deals with sizes of generation and what we, as the provider of last resort, would have to do in the event this generator doesn't work. I think I need to take it to another level, so I just wanted to advise you at this point that we're working on it. What we have right now is we're using our existing rates, and when someone generates back on to the system, it shows less than what they would have consumed. I don't think we have any cases where they produce more power than what they would have consumed during a monthly billing period.

Mr. Rodi stated the last item I wanted to just inform you about is we are continuing to work with our easement buffer question. We hope to resolve it this week. If we don't resolve it this week, I think we may have to take some other action, this has been going on month after month after month. Bear in mind our approach was very simple, we were going to negotiate easements with a PUD based upon the needs of that PUD. It sort of got carried away from there and others thought they needed to do something with it and it's become, I think, too complex. So we'll see how it turns out but I just wanted to tell you if I call a meeting on that topic. Right now we have, poor Mr. White, he's been trying to resolve the Southeast Interchange, we've given them a route, we have agreement with the land owners and this thing just stays churning in the waters. I wanted to bring this up rather than just being quiet about it, we'll see, but I expect it will work out okay. We've given a Memorandum of Understanding proposal to try and resolve this issue, so we'll see if that works. He then commented with that, I'm going to be quiet.

There being no further business to come before the Commission, Commissioner Diesen made a motion to adjourn. Chairman Allen closed the regular U.C. meeting at 7:10 p.m.

APPROVED:

ATTEST:



CHAIRMAN



SECRETARY-TREASURER

These minutes were formally approved by the Utilities Commission at their April 21, 2008 meeting.