

## **AGENDA ITEM 2-c**

MINUTES OF PRELIMINARY PUBLIC HEARING AND REGULAR MEETING OF THE UTILITIES COMMISSION, CITY OF NEW SMYRNA BEACH, FLORIDA, HELD MONDAY, MARCH 20, 2006, AT 6:00 P.M., AT 200 CANAL STREET, NEW SMYRNA BEACH, FLORIDA

### Preliminary Public Hearing Re: Revision of Water, Wastewater, and Reclaimed Water Main Extensions Policy:

Chairman Para opened the preliminary public hearing with all of the Commissioners present as follow:

Commissioner William E. Hall  
Chairman Kevin J. Para  
Commissioner William H. Reynolds  
Commissioner Richard L. Spangler  
Commissioner Jeanne K. Diesen

Others in attendance were as follows: R. Rodi, General Manager/ CEO; R. Montalvo, Director of Finance; R. Mitchum, Director of Electric Operations; T. Beyrle, Director of System Ops. & Generation; J. White, Director of Engineering; C. Crawford, Director of I.T.; B. Mudge, Director of Human Resources; E. Mahle, Public Relations/Marketing Manager; B. Sylvia, Lift Station/ Maintenance Supt; K. Connor, Materials Manager; T. Gilligan, Payroll/Benefits Administrator; J. Lutz, Call Center Technician, Level II; J. Santrock, Repair Supervisor; M. Roberts, Electric T&D Lineman; D. Simmons, Executive Asst./Recording Secretary; and additional U.C. personnel, numerous linemen, some water and wastewater, and a few communications personnel; Bill Preston, Interim U.C. Legal Counsel; City Commissioner S. Grasty; Melanie Stawicki-Azam, Reporter for the NEWS JOURNAL; Pete Slavin, Reporter for THE OBSERVER; Mr. Harry Judah, Business Manager for IBEW, Local 2088; Mark Hampton and Andrew Giannini, Representatives from Quentin Hampton & Associates, Inc.; Richard Campbell and Richard Annon, Representatives from Black & Veatch, Bill Rogers, Donna Para, Bob Tolley; Robert Hunter, Mike Roberts' son; and a few unidentified men and women; all members of the public.

Chairman Para then requested Mr. Rodi to read the notice of public hearing and proposed resolution by title only.

Mr. Rodi stated for the record this preliminary public hearing was authorized by the Utilities Commission during their February 27, 2006, Regular U.C. Meeting and notices appeared in THE OBSERVER at least ten days prior to this date. Notices were also placed on the bulletin board at the Utilities Commission office at 200 Canal Street and City Hall at 210 Sams Avenue. Proof of publication of advertisement of this hearing will become a part of the minutes. Mr. Rodi then proceeded to read the proposed resolution by title only.

Chairman Para asked if there was anyone in the audience that would like to be recognized this evening either in favor or opposed to this revision. There being no comments, Chairman Para closed this preliminary public hearing at 6:03 p.m.

Regular U.C. Meeting:

Chairman Para opened the regular U.C. meeting with roll call and the same attendees were present as listed above in the Preliminary Public Hearing.

Chairman Para then continued with the Pledge of Allegiance led by Commissioner Spangler.

(1) Agenda Changes, Additions and Deletions:

Mr. Rodi stated he had several clarifications, on item 8-b. under new business there's no action required, that was meant to be an information item. He stated on 8-d. the words that should appear after the word "of", is public hearings, so it would read comprehensive rate study – presentation and scheduling of public hearings. He stated on number 9., I have two items that I would like to discuss at that point when it's appropriate.

(2) Approval of Consent Items:

Commissioner Hall then made a motion to approve the consent items, item 2-a. Minutes of Regular UC Meeting Held February 27, 2006 and item 2-b. Minutes of Joint Special UC Meeting Held March 1, 2006, approve both as submitted; item 2-c. Sole Source Purchase of Gateway Upgrades to Hardware and Software, approve supplemental funding to work order no. 60-0-61201-00-0003 in the amount of \$14,098.31 from the unallocated Renewal & Replacement Fund and then award of Purchase Order Nos. PON0003398 in the amount of \$14,919.44 and PON0003399 in the amount of \$24,444.40 to Cross Telecom, a sole source purchase, in accordance with Section 2-1(2) of the Policies and Procedures Manual; item 2-d. Contract for Service and Replacement of Fire Hydrants, Valves, and Line Stops, to approve and award purchase order nos. PON0003378 in the amount of \$14,330.00 and PON0003379 in the amount of \$14,011.12 to Mueller Co./Mueller Service Co., piggybacking of Broward County Bid Nos. Q-X-03-268-B1 and Bid No. H-9-05-315-B1; and item 2-e. Brent Millikan & Company, P.A. – Invoice No. 13763 – Supplemental Services, approve and authorize payment of invoice no. 13763 in the amount of \$24,650.00. Commissioner Reynolds seconded this motion and it passed unanimously on a roll call vote.

(3) Public Participation:

There was no public participation at this point in time.

(4) General Manager's Report

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

and

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

and

(4-c) Commercial Monthly Report for January, 2006:

Mr. Rodi stated in the month's report we are reporting on January's financials. As we previously discussed we intend to move that schedule up and we have some administrative issues to work through from a timing standpoint as to when we can send out the book information and when the financials might be due, a couple days after that.

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

Mr. Rodi then stated so we will work through that part of the issue and then he turned this item over to Mr. Montalvo.

Mr. Montalvo stated we are reporting on the month of January 2006, this is the fourth month of the fiscal year in 2006. On the electric side we have a negative balance of \$15,000, on the water a negative balance of \$290,000, the wastewater a negative balance of \$85,000, and on the communications, a negative balance of close to \$800,000. He stated we are mostly on target with the projections on the revenue and expense side. He explained these are the low months for us, starting probably in May, June, and July, we start recovering the negative balances. He then offered to answer any questions. There were no questions at this time.

(4-d) Water System Analysis – Part II – Quentin L. Hampton & Associates, Inc.:

Mr. Rodi stated, while Quentin Hampton is setting up for their presentation, this is Part 2. He stated for the audience this might be helpful, part of what we've been attempting to do is quantify the condition of all of our systems. You have seen Part I of the Water Study and it reflects essentially the piping system for water supply. This Part II deals with the pumps and some of the peripheral systems that are related to that piping system. We have just begun the wastewater and reuse part of that so when we finish we'll have a lot of quantifiable information and priorities as to what becomes more important to address first and last.

Mr. Rodi stated we are also doing the same thing with the electrical system so we'll know what the loads are on the lines, project in growth parameters, and then look at what the sequence will be for that particular system. When these are finished we'll be able to tailor our five year and ten year CIP. What we did was use order of magnitude estimates to hold positions for what it is we know will be involved in this system and these studies will help to define that. He then asked the representatives from Quentin Hampton to introduce them and commence with the presentation of the Water System Analysis, Part II.

Mr. Mark Hampton addressed the Commission and stated he was the President of Quentin Hampton Associates and with him tonight was Mr. Andrew Giannini. He stated Brad Blais who authored this report is on vacation so tonight's report will be fairly brief and to the point.

Mr. Hampton stated our scope was to review the Water Treatment Storage and Pumping for the Utilities Commission. The U.C. owns and operates a single water plant at Glencoe Road. He interjected a lot of this is pretty general. It is a conventional lime softening treatment facility and has a rated capacity according to DEP of 10.38 MGD. Raw water is supplied to the facility from 19 wells located in three different wellfields, one at the plant at Glencoe Road, one in the Samsula area and the Western wellfield, both of which are on S.R. 44.

Mr. Hampton said the next slide's a chart depicting the well capacities and capacity requirements. You can see the capacities are listed by 2005, 2010, 2015, 2020 and 2025. He stated right now the U.C. is in fairly decent shape but by the year 2010, which is the second column, you'll need another 2.48 MG of capacity and this is used in the assumption that half your wells are on at any one time and you're resting the other half. The U.C. currently has plans underway to install five new wells at 350 GPM each, at your facilities on the west side of I-95. It also shows as you go further out, you'll

(4-d) Water System Analysis – Part II – Quentin L. Hampton & Associates, Inc. (cont.):

also need additional capacity. The five new wells are currently proposed in the vicinity of the U.C.'s existing wastewater treatment facility and should have an average capacity of 350 GPM per well. He stated this is pretty much indicative of the Floridan aquifer which is in Volusia County. Total capacity of the five wells would be 2.52 MGD. In order to achieve the production capacity by the needed time of 2010, you need to have construction underway in fiscal year 2007/2008, with design and permitting basically starting fairly soon, in fiscal year 2006/2007.

Mr. Hampton stated in addition to the ground water pumping capacity the raw water transmission capacity is a constraint for the Utilities Commission. He stated most of you know there is a 20" raw water transmission main on S.R. 44 that conveys approximately 60% of the utility's raw water back to the Glencoe Plant. Existing raw water transmission main capacity is adequate through the year 2020, but there's no redundancy, there's only a single pipe going out here. If the existing transmission main is damaged or out of service for any reason, the U.C. could immediately lose greater than half its water production capacity. You should note that about 40% of your capacity does exist at the Glencoe Road Plant with the wells you have there so you're not totally out of business.

Mr. Hampton went to the next slide regarding well capacity and capacity requirements. He stated in order to provide operation redundancy and long term sustainability, you should pursue the following three different alternatives. Additional finished water interconnects with some of the neighbors and I believe you have two already, one with Port Orange and one with Edgewater. Alternative water supplies, you've probably heard a lot about that through the WAV. A secondary raw water main is also a possibility with the single one you have out there now.

Mr. Hampton stated we also looked at your treatment processes, some of them are in fairly decent shape. He stated aeration, that's where you get the hydrogen and sulfide out of the water that comes out of the wells, that's in pretty good shape. The structures have sufficient capacity for 12.4 MGD rating. Softening is available in the capacity also of 12.4 MGD. Filtration is a little bit limited, the Glencoe Plant presently has the capacity of 10.38 MGD. It may be possible with some additional filter re-work and re-hab to re-rate the filters with the DEP to get them up to the 12.4 MGD like some of the other parts of your process have.

Mr. Hampton stated the next slide is a little diagram of your plant (Glencoe Water Plant Process Schematic). Going left to right, you basically have your influent structures and your softeners which are those two round things and your recarbonation which is kind of the center square, it goes to the filters which are the three other boxes and then eventually you'll see a bunch of little circles over there on the right hand side, that's the finished water being pumped over to the Smith Street stations.

Mr. Hampton stated one of the treatment processes you use is disinfection and you use chlorine to control bacteria, it's fed, followed by ammonia to form chloramines. This is the predominant method that's used currently because it's very stable, meets all the Federal and State guidelines. The Glencoe Water Treatment Plant is subject to modified "CT", concentration time, requirements. That's because you have some open structures there. The Water Treatment Plant must demonstrate concentration time compliance by January 1, 2006. He stated you're lucky, when we did the actual calculations you've got 370 and it's required at 321, so you're in pretty good shape.

(4-d) Water System Analysis – Part II – Quentin L. Hampton & Associates, Inc. (cont.):

Mr. Hampton stated in the treatment process, the chlorine equipment itself is fairly simple, like most other municipalities use, it's fed from one ton cylinders, average chlorine demand's less than 500 gallons a day, so you have adequate capacity for a full 12.4 MGD. Chlorine gas feed systems, as is the case with everybody, are subject to the Federal Risk Management Guidelines. You've probably already done that and have been through that. An element of the plan includes public notification for residences and businesses within close proximity of the plant. As development closes in on your plant, the Utilities Commission may wish to consider safer disinfection options. There are several to consider and the one we see predominantly with most of our municipal clients is the bulk Liquid Sodium Hypochlorite, that's pretty much in favor because of containment and spills, it's pretty forgiving. Option 2 is on-site generation and the third option is ozonation. He stated we're seeing ozonation go away a little bit because of some of the by-products you get when you ozonate.

Mr. Hampton stated next is storage and pumping, this is kind of showing the transfer pumps we showed earlier over there on the left. The transfer pumps I was alluding to, you have about five of them, and quite frankly they need some help. You can see the first one is over 30 years old, the second one is presently out of service, third one is 30 years old, and number 11 and 12 are getting up there in age also. He stated useful service life, a typical vertical turbine pump is about 15 to 20 years, so these have pretty well used up most of their economic life. He stated all the pumps should be replaced and should be equipped with variable frequency drives (VFD's) because they're much more efficient and fluctuate up and down according to your demand, and new instrumentation to control them.

Mr. Hampton stated storage is another component, the U.C. operates four tanks, one at the Water Treatment Plant, two at Smith Street and one on South Peninsula. You also use to have one over at Third Avenue on the beachside and you are going to need another one, there I think you took it down because it was too corroded and pretty well in bad shape.

Mr. Hampton stated regarding high service pumping, the U.C. has three high service pump stations, one at the Water Plant, one at Smith Street and one on the south beachside. The existing Smith Street pump station is constructed below the 100 year flood plain and is subject to inundation. The existing structure, electrical and mechanical equipment is in pretty bad shape also. The types of pumps you have there are centrifugal pumps which limit the useful storage of the tanks so you're only able to effectively use about 60% to 80% of the capacity at the site, at Smith Street. The existing structure will not meet the current State of Florida wind load requirements and trying to retrofit the existing structure would cost more than just building a new one. We are recommending a new pump station at Smith Street.

Mr. Hampton stated emergency power at the Glencoe Water Treatment Plant is not equipped with an automatic transfer switch (ATS). This is a convenience item but is pretty much standard on most plants that we see, so when the power goes out after so many seconds it just transfers the load over and everything keeps running. The transfer switch should be installed in addition to the new power distribution equipment. The existing generator out there right now is marginally sized to handle all the existing plant loads and the high service pumping. So to accomplish this, a separate generator with enclosure is recommended with the ATS at the Glencoe Water Treatment Plant. That way you'll be fully operational out there, the high service pumps as well as the rest of the plant.

(4-d) Water System Analysis – Part II – Quentin L. Hampton & Associates, Inc. (cont.):

Mr. Hampton went to the next slide and stated this is a project summary spreadsheet which contains the estimated costs and time frames Mr. Blais has come up with after working with U.C. staff. There's one of the projects in there, number 9, that he's put in even though that's in the first phase report, the Third Avenue Storage and Pump Station, so that's not included in the cost of this particular report because it was in the last one. He stated the estimated costs are totaled up by the various years (2006/07, 2008 and 2010).

Commissioner Reynolds stated on your project summary spreadsheet, are those in any type of prioritized order that you recommend?

Mr. Hampton stated those are prioritized by year.

Commissioner Reynolds stated but within that year?

Mr. Hampton stated his firm could go back and do that if the Commission wants, added he doesn't know if the U.C. already has that or not.

Mr. Rodi stated I think what's going to happen, as we get other parts of this, we will have to sequence all of these. Part of what you saw in the five and ten year plan is that we were assessing priorities just from a standpoint of immediate, interim, and long term. You can see all the front end loading on this. We can't possibly accomplish all of this at one time so what we have to do is put those elements of this system together so that when we're doing the piping work, the pumps, the wastewater and Bright Water systems, we have got to coordinate all of that. The reports themselves are being generated one at a time but then we're going to have to generate all of this into a more cohesive package.

Commissioner Reynolds stated these items here which we were to begin in 2006, this year, was that included in our capital plans that we sent over to the City Commission?

Mr. Rodi stated most of the items were, they weren't specifically identified as clearly as this but we did have, in most cases, holding dollars for those. In other cases there aren't monies set aside specifically for that so we're going to have to restructure this as they come through.

Chairman Para and Mr. Rodi thanked Mr. Hampton for his presentation.

(5) Commission Counsel's Report:

Mr. Preston stated it's been a busy month and probably the most significant is a demand by Mark Richards, as President of VStar. I'm formulating a response to that demand at this time but he submitted a demand to the Utilities Commission in the amount of \$440,572.05. The other larger item is one we will discuss later pertaining to the Developer's Agreement.

Commissioner Reynolds stated didn't we several months say that in order to find out the origin and true ownership of VStar something like this had to occur.

(5) Commission Counsel's Report (cont.):

Mr. Preston stated this will lead to, or potentially lead to, where we can gain discovery, at this point it's simply a demand.

Commissioner Reynolds stated so if they follow up on that then we should be able to do discovery I presume.

Mr. Preston stated that is correct.

(6) Committee Meeting Reports:

(6-a) Approval of Commissioners' Travel Expenses – PURC Workshop and PURC Annual Conference – Chairman Para:

Chairman Para stated he would quickly summarize both events. The event in Washington DC was a leadership seminar and there was some real fun with a specific project, it was a challenge. An appointed position and an elected official, basically interfacing with that appointed position and making certain demands on it which led to some really interesting conversations. That was a great exercise and essentially there's a philosophy of two primary leadership responsibilities and change. It's technical change which is what is done on a day to day basis, that you might want to say continues to right the ship and make it go a little bit swifter through the water, and we've got some excellent leadership in that technical change side. The other is adaptive change and these are the areas that our responsibility of us as Commissioners to weigh in and make decisions, whether it be a significant change in the agency, the complexion of the agency, and in many instances it's tough decisions. The thrust of the whole thing is not letting issues become personal but at the same time not backing away from an opportunity to make people a little uncomfortable because it requires us to defend our positions as we believe them to be. Not take ownership to the point where you get ugly about it, but at the same time I believe this, and he added please prove me wrong. The last thing was to find common areas, where you can take differing agencies and come together on one small circle, they used circles and aligned them. He commented he may be going a little long but it was very informative and thanked the Commission for the privilege of attending this workshop.

Chairman Para stated the other was 100 years in utility regulation. It was interesting the other night when we had our joint meeting with the City Commission and talking about where we're at is the same place as many utility companies around the United States are at currently. The comment was, and they put it quite candidly, is that we have as a generation lived off the largess of our forefathers, people who have gone before us, and they have given us a tremendous trust in that all this infrastructure is here. We have grown up and now we're passing past that, and now it falls the baton backwards to us to pick it up and move it ahead. So we approached that from several different areas, we talked about energy, and what's out there in the market place. It was kind of interesting how the natural gas companies, and you watch them in their seminar. You see the price line go from back in the 90's go from a \$1 BTU cubic feet, up to \$7, \$8, or \$9, depending on which region of the nation, and now it's going to level off and start going the right way, correct Mr. Beyrle. It really boils down to coal gasification, natural gas, some like nuclear, and renewables. He added you know where I stand on that one. He stated it was also nice to hear from the FERC representative, a lady by the name of Browning who came down from the Federal level and she provided some good insight. As I understand it, Mr. Rodi, they're going to become more proactive.

(6-a) Approval of Commissioners' Travel Expenses – PURC Workshop and PURC Annual Conference – Chairman Para (cont.):

Mr. Rodi stated yes.

Chairman Para stated in the past they have been reactionary and kind of sitting back waiting to see what we all do but with the Energy Act of 2005 there's a little bit of opportunities and they're going to go forward. He commented I'm being very editorializing here. He concluded by stating all of that was good stuff, and more information can come if anybody would like to have it, and it was very enlightening. He reiterated his thanks for the privilege of going and stated that's my report.

Commissioner Diesen then made a motion to approve Chairman Para's travel expenses in the amount of \$200.00 for the PURC workshop entitled "Leadership in Utilities Policy: Adaptive Work for New Realities" and travel expenses in the amount of \$530.35, for the PURC Conference entitled "A Century of Utility Regulation: Lessons We've Learned". Commissioner Hall seconded this motion and it passed unanimously on a roll call vote.

(7) Old Business

There were no Old Business items to consider at this point in time.

(8) New Business:

(8-a) Changes in Personnel Practices Manual – Salary Schedule (Management and Non-Represented Employees):

Mr. Rodi stated we have actually two companion items here. Under 8-a. staff is recommending a general wage increase of 3.5% for management, non-represented, employees to be effective October 1, 2006. Also the authorization to adjust the associated wage schedules for this increase. It's a rather straight forward proposal and what we're trying to do, even in light of our financial performance of 2005, is to try to build in not only a recognition of a wage increase but also to adjust the wage schedules that allow people who are topped out to receive an increase. He stated that's what item a. is about and I request approval.

Commissioner Diesen made a motion to approve a 3.5% general wage increase (GWI) for management and non-represented employees to become effective October 1, 2006 and authorization to adjust the associated wage schedules for this increase. Commissioner Spangler seconded this motion.

Commissioner Reynolds asked how does this compare with our represented employees.

Mr. Rodi stated it depends upon how you measure. If you use something like a weighted average which essentially shows the people in various grades, one of the things you'll see is for the non-represented employees they usually don't have the tenure, the positions are lower level positions, usually lower paid, so that the weighted average for that group is lower. For the represented unit you have more skilled, better qualified, longer term employees and generally they tend to gravitate toward the higher ranges and higher scales so you have a heavier weighted average there. Part of this item was, and Mrs. Mudge wanted to have Mr. Judah who is the Business Manager for IBEW,

(8-a) Changes in Personnel Practices Manual – Salary Schedule (Management and Non-Represented Employees) (cont.):

Local 2088, here because he had some of his perspective he wanted to share on this topic. So after you finish with this particular item I would invite that Mr. Judah would address the Commission.

Chairman Para asked if there were any further comments. He then asked Mr. Rodi if he wanted this to occur before we vote or afterwards?

Mr. Rodi stated I would like for Mr. Judah's presentation to occur after your vote on this.

Commissioner Diesen's prior motion then passed unanimously on a roll call vote.

(8-b) Collective Bargaining Unit Agreement – 2006 Reopener:

Mrs. Mudge introduced Mr. Harry Judah, the Business Manager for IBEW Local 2088, to the Commission.

Mr. Judah had a binder of information distributed to each of the Commissioners and then he addressed the Commission. He stated I'm the Business Manager of Local 2088 of the International Brotherhood of Electrical Workers as Mrs. Mudge had said. I'm here tonight representing your employees and our members of the Utilities Commission. I would like to thank you for allowing me to address you tonight. I'm not here in an adversarial capacity but instead to tell you our problems and ask for your help.

Mr. Judah stated he would like to start with some public perception. Utility workers, you see on T.V. and T.V. shows, they're thought of kind of like the advertisements for Allied Tires, tires ain't pretty but they're sure necessary. In fact they should be thought of as people who bring quality of life to the citizens of New Smyrna Beach. They provide the lights, the electricity for your stoves, for your air conditioners, for your heaters. They provide you with water to drink that you're not afraid to drink, not afraid for the visitors in this city to come and drink, and wastewater which is a necessity. Electricity is dangerous work, working with dangerous chemicals, being exposed to serious health issues, working with high voltage electricity, on the ground, in the air, below the surface, and in lift stations. They work 24 hours a day, 7 days a week for the citizens of New Smyrna Beach. How often the average citizen uses the services of the police and fire department I don't know, but they're the ones that make the headlines. He stated I want to say up front I am not anti-fire or police, my son is a police officer in a large metropolitan police force and I'm a former fireman.

Mr. Judah stated but the truth is the truth, every time you flush your toilet, you're using the services of the wastewater plant and the water department. He reiterated when you turn on your spigot you get good tap water and etc. He stated our guys are out in the stormy weather to provide you with continued electricity, water, and to keep the lift stations working. I know I'm preaching to the choir here but I just wanted to touch on that.

Mr. Judah stated I would like to briefly address the cost of living. I have stacks of data I started to bring but I think we all know the condition of our economy when we buy gas and go to the grocery store. He stated so rather than that if you would look under tab 12 of your notebook, there's an

(8-b) Collective Bargaining Unit Agreement – 2006 Reopener (cont.):

article I would like to read to you; this kind of sums it up. It's addressed "Social Security boost doesn't measure up". How do I spend the additional \$44 Uncle Sam sent me in my Social Security check? To quote my notice from the Social Security statement: "Your Social Security benefits will be increased by 4.1 percent in 2006, because of a rise in the cost of living." Come on, Uncle Sam, get with it. My lawn man wants a \$10 increase a month to cover his extra expenses. The pool man wants an additional \$10 to cover his cost of chemicals and gasoline. Gasoline for my cars went up \$200 a month. FPL wants a 28 percent increase in their rates. My water bill recently reached a \$100 for the first time in my life. The auto insurance company has raised its rates 8 percent. My homeowner's insurance company had indicated a 20 percent increase in rates. My health insurance discontinued my dental coverage and increased my medical premiums by \$100 a month. And, you, Uncle Sam, are taking \$88 a month for Medicare. I don't know how I am going to spend this extra \$44 that you have included in my check but I think I will take my wife to lunch. He stated that kind of says it about where we are.

Mr. Judah stated our problem is two fold. We're addressing in 2006 paychecks for 2007, and we're using data from 2005, so when these paychecks come in they're already behind the curve. He stated I'm going to be using linemen rates because they're easier to track and throughout the presentation I'll be referring to the Fifth District of the IBEW which includes the states of Florida, Georgia, Alabama, Mississippi, and Louisiana.

Mr. Judah stated under tab 4, the bulleted items, states as of December 2005 the average percentage wage increase for municipalities in the Fifth District of the IBEW was 3.54%. As of December 2005, the average lineman rate in municipalities in the Fifth District of the IBEW was \$26.50. The current Utilities Commission rate in New Smyrna Beach is \$24.92 and if my math is correct, that's a \$1.58 less than the average. After the 3.5% increase the U.C. rate would be \$25.79 which would still be a minus \$.71 below the Fifth District average and this will not take place until October of 2006, so we're talking about 2007 basically. Therefore, as I said earlier we're dealing from behind to begin with, using basically two year old data by the time this takes place.

Mr. Judah stated our second problem is insurance. Normally we'll get an increase when these new rates come in. The new rates, as I said, we don't know how much they are but we can guess from how much they were last year, and the Commission pays 23% of health care insurance. This year the U.C. changed from three rates to two, from two plans to three plans. If you will look at your tabs one and two, that's the current plans and tab two is the previous plans for 2005, so that's where we got the data from. Tab three is a breakdown of single employee, one and family etc.

Mr. Judah stated under tab five it shows the next to the top pay grade 22, which is a lineman, to pay grade 5 which is the lowest one you have. The middle column is the current rates of pay and the final column, the rates of pay with a 3.5% increase. Tab 6 is a 3.5% increase versus the employee only pay, they pay now \$11.76 versus \$14.09, and last year it came down to a gain of \$.03 an hour. Tab seven is the 3.5% increase versus the choice plan 38 for employee plus one. At the 3.5% increase for a level 5 the insurance would cost \$.59 an hour for a minus \$.17 over his raise. Pay grade 11 would be a minus \$.01, for 15, he would have gained \$.10 out of the \$.69 raise, and for 22 he would gain \$.28 out of the \$.87 raise.

Mr. Judah stated tab eight is 3.5% versus employee plus two. Employee plus two was done away

(8-b) Collective Bargaining Unit Agreement – 2006 Reopener (cont.):

with so it falls into the family rate this year so it will be somewhat higher. You can see at pay grade 5, you'll get a \$.42 increase and have a cost increase in insurance of \$1.51 for a loss of \$1.09. Pay grade 22, \$.87 increase, for a loss of \$.64. He commented you can read the other ones, I was trying to cut it so it would be a little bit shorter.

Mr. Judah stated the next page, tab nine, is the 3.5% GWI versus the family plan. A pay grade 5 would get a \$.42 raise, increase of insurance is \$.72, for a loss of \$.30. Pay grade 11 would have a loss of \$.14, pay grade 15 a loss of \$.03, and pay grade 22 would gain \$.15.

Mr. Judah stated on tab ten, this is what was formerly the POS, there are two different plans, and we just took the middle one which is not the higher or lesser of the two. There appears to be a \$96.20 per month savings for a much watered down employee and family plan. If you check your tabs one and two, you'll see what I'm talking about there. He stated that's a \$.56 per hour savings, there's a \$1,000 deductible for the family and that comes out to \$.48 an hour if you use it. If you take that \$.48 an hour from the \$.56, they gain \$.08 an hour increase.

Mr. Judah stated the Commission has offered us a 3.5% GWI and we're willing to accept that but we respectfully request the Commission to give us some insurance relief. In this instance we're asking you give us relief by not increasing insurance for the fiscal year 2007. This will enable your employees and our members to try to catch up in these trying times, and provide health care for themselves and their families.

Mr. Judah stated in closing I would like to read you a short story, and that's found on tab eleven. It's entitled "The Mechanic". He proceeded to read the story as shown below.

### The Mechanic

Once upon a time there was a little town, quite self-sufficient, and owned by one man. He was a kind man and ministered to the needs of the town's people. With the passage of time and the coming of automobiles, there developed a need for a garage – so the kind man found a good mechanic and set him up in business. He told the mechanic, "Charge your customers \$3.00 an hour for the work that you do. Give me \$1.00 of the \$3.00 and keep the other \$2.00." And so it was.

And the town prospered and the garage prospered and more time went by. Then, to keep pace with progress, they decided that they needed to keep a better account of all happenings and costs and incomes and taxes and things of a more modern age.

So, accountants were hired, and from the information they gathered and from the instructions given by their machines, they had to hire people to arrange the work for the garage and schedule it to the mechanic – and, they wondered how they ever got along without these systems. By now the mechanic was hard pressed to perform all his chores. He had to furnish reports to the accountants and had to meet

with the production controllers and he complained. So, they hired engineers and specialists to help him improve his operation. And they had operations on IBM cards, notebooks, on inspector's scratch pads – and when all piled together, they were an impressive sight. They would tell which jobs were behind and by how much, and how good everyone had guessed ahead of time, what all might have happened and a lot of which didn't. Two six one four eight four zero one seven.

And more time went by and the cost to the customers had now gone from \$3.00 an hour to \$21.00 an hour, and the customers who supplied the money complained, and it was decided that costs must be cut.

So there was a meeting and all agreed that they must produce more with less, and costs must be cut. But they could not cut the \$1.00 that went to the owner and all of the engineers were necessary and the production controllers and the inspectors and the accountants were all necessary. Yet, they must cut costs.

They did the only thing left to do – they fired the mechanic.

(8-b) Collective Bargaining Unit Agreement – 2006 Reopener (cont.):

Mr. Judah stated it's an analogy but these guys are your mechanics and we would appreciate anything you can do for us.

Chairman Para asked if there were any questions of Mr. Judah.

Commissioner Spangler stated I have one question, as much as I understand this, you were saying give relief to those employees whose insurance costs have gone up, I think you said, which raised the questions of what do we do for those employees where the insurance costs have gone down.

Mr. Judah stated what I asked was that you provide more for the insurance. The costs went down three cents an hour I believe for the single, is that correct?

Commissioner Spangler stated over the whole range of things the lower plans were cheaper and the family plans were more, and I don't know whether this applies to just union employees or if this is just to go to union employees, what about all the other employees?

Mr. Judah interjected I represent the union employees so I couldn't speak for the others.

Commissioner Spangler stated but we have to pay everybody.

Mr. Judah stated I understand.

Commissioner Spangler stated there's two points I'll just raise and hear what people have to say.

Commissioner Reynolds stated we're in the process of reviewing how we select an insurance carrier. We're going to ensure that we have good representation at all levels. One of the things that we discussed, and I will bring it up for an agenda item for next month, it appears that we can save our employees some money by changing the date that the insurance becomes effective. For instance, now it becomes effective October 1 and three months later if someone's had work on their deductible during that period of time, it's wiped out because insurance carriers starts their new year January 1.

Mr. Judah commented that's the way most of them work, yes.

Commissioner Reynolds stated so what we're looking at and what we'll propose for this Commission is that we switch our dates to where we review that and come up with the policies effective January 1 so that our employees, including the represented employees, are not stuck in that three month period where they may have a high cost of service from the hospital or medicine and therefore it would carry over. We have a plan that we're beginning to develop now so that we have hospital representation. In looking at these plans in terms of effectiveness and to see if we do have three best plans, or whether we need four or cafeteria approaches we've done here to a basic extent. We can safely say that we will bring it before the Commission that the insurance rates will not change until January if our carrier accepts; that's a start.

Commissioner Spangler commented eight, nine months out of twelve.

(8-b) Collective Bargaining Unit Agreement – 2006 Reopener (cont.):

Mr. Judah stated no, our raise doesn't go into effect until October and that's what I was going to tell you. The cost of living for Social Security is 4.1% and the change in the insurance of who pays less or who doesn't would just be automatic on the insurance, it wouldn't affect, might save one more than the other, but still the 4.1% or 3.5% wouldn't be the same.

Chairman Para then stated I need a little clarification here. He thanked Mr. Judah for his excellent presentation, and added he wasn't trying to say goodbye. But are we apart here, I mean shouldn't this be coming through Mr. Rodi in the form of a report with a recommendation?

Mr. Rodi stated part of what I'm being careful about, and Mr. Judah is as well, I don't want to negotiate in public. We've reached a point where we had our negotiations and Mr. Judah wanted to present from his personal point of view, and I wanted him to have the open forum to do so. That's what this is about, that way I'm not interpreting for him or the membership. That's what I'm trying to do.

Commissioner Hall stated his mind was kind of blank, but does the City Commission have to approve whatever this body does as far as pay raises?

Mr. Rodi stated to my knowledge no.

Commissioner Hall stated I remember years ago there was a time when the Utilities Commission employees received several years about 3% more each year than the City employees and everybody was saying what's going on here. He reiterated then we're independent on this issue with the City Commission.

Mr. Rodi stated yes, that's my understanding. He stated part of, obviously, negotiations are very complicated and Mr. Judah hasn't said this but he also represents many other businesses and industries so he's a very talented, capable business agent, so I wanted to pay homage to how much he really knows. He stated we have a relationship that we also have to maintain with the City so that's usually referred to as parity, so for a lot of other comparisons you can get into so many different kinds of comparisons it's mind boggling. He stated but again the purpose of this time was for Mr. Judah to speak his mind as to what he wanted to address the Commission with and then afterwards of course we're still in the position of trying to resolve what we have.

Commissioner Hall stated he wanted to say thank you to Mr. Judah because I've been in situations where I've had comments, extremely negative, made towards a board that I was employed by and some personal attacks. You were very tactful in your presentation. I've said it about ten times, but I'm a happy customer. I think our workers do a great job and this is a tough nut to negotiate. I'm making comparisons of my former life, and I thought I had it rough then, but what happens to us if revenues go down or if the growth that is planned doesn't materialize, or if the price of crude oil and all that stuff goes out of sight. I paid fifteen cents a gallon more today than I did five days ago for gas for my car. He then reiterated he wanted to thank Mr. Judah for being very tactful.

Mr. Judah thanked Commissioner Hall and reiterated we're not here to be adversarial, we're here to work together. Hopefully we can do what's good for your employees and our members.

(8-b) Collective Bargaining Unit Agreement – 2006 Reopener (cont.):

Mr. Judah said and talking about what's good for the City that's one of the things we hear, the City got 4% I believe, and commented I wasn't going to bring that up.

Chairman Para commented well that's truth out, and then thanked Mr. Judah for being here, appreciated his time, and look forward to future dialogues with our staff and everyone else.

Chairman Para stated next is the information found in 8-b. correct?

Mr. Rodi stated the item we just covered was 8-b.

Chairman Para then went on to item 8-c.

(8-c) Suspension of Policy and Charges for Conversion of Electric Distribution System from Existing Overhead to Underground:

Mr. Rodi stated as far as some background information on this item, as we have been analyzing all of our internal activities and processes, one of the issues that came forward is we have a rate that essentially subsidizes conversion of overhead to underground. In understanding how we would even go about doing that the crux of this rate would depend on how accurate our estimates are to being with and whether or not we have standards for purposes of comparison. As you start to peel back those layers of the onion, you find that we don't have those things. We have some very experienced people in providing those estimates but it becomes a little complicated in trying to make this a useful rate. So at the current time what I'm requesting is that this rate be suspended because as we're going through all of our different rate structures, and you'll hear a presentation shortly here tonight by Black & Veatch. You'll see a lot of significance for where we're headed in the future with regard to just the overall structure of how we work through this dialogue of where we get our money from and where our money goes; that's what is behind this item.

Commissioner Reynolds made a motion to approve suspension of the policy and charges for Conversion of Electric Distribution Systems from Existing Overhead to Underground until further notice. Commissioner Hall seconded this motion and it passed unanimously on a roll call vote.

(8-d) Comprehensive Rate Study - Presentation and Scheduling of Public Hearings:

Mr. Rodi stated he will ask Mr. Montalvo to introduce the folks from Black & Veatch that are here. This has been a very complicated and trying exercise for Black & Veatch. They have been very cordial and very open about what it is we are trying to do. Again I would like to give some reference before they begin. Part of what we tried to do with our five year and ten year capital improvement plan was to anticipate a worse case scenario. We're assuming that the build out rate of all the approved subdivisions is going to occur within the ten year window that creates certain dynamics as far as, for example, having the right number of capable employees as well as employees who will be retiring during this same period of time. We're also then looking at formalized maintenance programs, also addressing the front end, you've seen just in a few of these studies that they're saying these things need to be done now. We've exhausted the capability of our existing assets so we have to re-invest again. Linemen are still running 20-year old bucket trucks and they've had the booms remounted on new chassis and wore those out, so that we've reached the

(8-d) Comprehensive Rate Study - Presentation and Scheduling of Public Hearings (cont.):

point where we've got to reinvest in ourselves. In trying to anticipate all of these various needs, you build this into a cost of service study so there's science to it and a little bit of art with it. He stated with that I'll turn it over to Mr. Montalvo to make the introductions.

Mr. Montalvo stated I'm pleased to introduce Mr. Richard Campbell and Mr. Jeffrey Annon from Black & Veatch.

Mr. Campbell stated I appreciate the chance to share with you all your results, our results, for tonight. As we're going through this, we've been tasked with, in the last few months we've been working with your staff in trying to develop a cost of service rate analysis for your electric, water, and wastewater systems. What we're wanting to accomplish tonight is to share with you some of the processes involved and the results. As we began we had some objectives and goals, things that we were wanting to accomplish, things that your staff and that you were wanting to accomplish through the process here. We were wanting to look at what are your needs, your revenue sufficiency, what it's going to take to get you where you need to be, and how can we meet those needs as well as meet the needs on the CIP to take care of your current capital plan. We wanted to look at what your customers are being charged now and what it will take to get your customers to a cost base rate, and is that possible and what the time frame would be involved to get you there. We wanted to look at a resource conservation, resources of course being your power and water. We wanted to look at providing stability of services, what is the appropriate capital recovery level, what should you be able to expect. We wanted to look at being able to retain administrative capabilities and compatibilities, and keeping everything that we propose, and everything that you provide, understandable for the public.

Mr. Campbell stated there are certain elements that go into just the ratemaking process. Probably the most important too, is obviously the fiscal requirements. What is it going to take to operate your system, what is it going to take to get you where you want to be and where you need to be as a system as a whole, and then what are the rate revenues involved there. Also included are other sources of income, your customer characteristics being your individual customer classes, be it general service, your residential customers, your irrigation customers; each of those have different operating characteristics so we looked at those while we were going through the process. What are your future needs, where are you going with your capital improvement plan, what does your system need, what do you need to meet future growth which was a huge drive in this whole process. What are your community standards, what as a utility, us as your consultants, what do we see happening in the community. Where do we see that we can help individuals and basically help your customers, and where do you want to drive those. Also compliance with your Florida statutes and things such as your water management district right now. We're looking at conservation issues, with water again being a valuable resource right now.

Mr. Campbell stated in the process we did certain things and took certain steps. One of the important things were fiscal requirements and operating analysis. We reviewed what your fiscal requirements are, what does it take to operate your system now, and what are your needs moving forward. Your capital improvements we looked at your programs, what some of your plans are for your different utilities, are you getting where you need to be or are you cutting it short from what we feel like or are you going overboard in some stuff. We looked at these and we looked at your capital structure, what your bond covenants were, where do you stand on those, are you meeting

(8-d) Comprehensive Rate Study - Presentation and Scheduling of Public Hearings (cont.):

those covenants, those needs right now. You had other fiscal needs, are you covering everything that's just not necessarily included in your capital plans. Also revenue analysis, are you producing sufficient revenues to meet what your plan is, and what we will propose. We looked at your customers, your customer base, where is it at now, and where do we see it going. We tried to get an understanding of what your community is doing, where your community is headed, what your makeup is in your community and what the goals are for your community and for the Commission. He stated based upon all these, we tried to develop a computer model that would allow us to input all of this in, with a whole lot of input from your staff.

Mr. Campbell stated the fiscal requirements, is one of the big drivers, obviously, of the whole thing. We looked, and everything we looked at right now, were about done for this fiscal year, for 2006, so we used as a test year your 2007 fiscal year. We looked ahead and we proposed what your O&M, your operating requirements are going to be. Then we also looked at your debt service, it's going to have two components there. Your debt service, so not only do you have to meet certain debt service requirements but you also had covenant requirements too. You had certain standards, and certain levels that you have to maintain. We looked at your renewal and replacement and also your transfers. You had some transfers that are mandatory for you right now so those were included in your fiscal requirements. You also had pay as you go capital things you want to just pay out as opposed to covering from your debt service, issuing debt on those things that you want to pay out with cash. Those create your fiscal requirements.

Mr. Campbell stated from those we were able to back out any other sources of income that you would recognize and get to a bottom line. What is your rate revenue requirement and basically what kind of dollars do you have to return. There are also other items that we included in there and as we step through we'll point those out, talk about those, and share with you what our thoughts were on that.

Mr. Campbell stated in the beginning, its cut and dried here, your rate revenue sufficiency. Where do you stand with your existing rates and do they cover and create sufficient income, moving ahead for where you need to be for this next fiscal year, and the answer is no right now. Shortfalls, based upon again the proposed CIP, where you're headed with your capital improvement program now, your plans to move ahead to meet the growth, the drivers that you have, as well as looking at the existing rates. Right now you come up with, for electric for 2007, a shortfall of a little over \$1.8 million, water a little over \$300,000, wastewater produces a shortfall of \$985,500, for a combined total of a little over \$3 million shortfall for fiscal year 2007. This is as things stand right now, if you don't do anything.

Mr. Campbell then stated so what is creating these shortfalls. As we mentioned one of the issues, one of the fiscal requirements you have is your operating expenses. From looking at it, is this a main driver, and we would say no, that is not obviously, as this creates a big cash requirement. However looking at the system as it is now, the way it is being run, the dollars that are spent, that is not a big driver, there's not a lot of room to move with what your staff is doing right now. You are operating it close, very tight, you don't have a lot room to cut right there. In the future is that going to be a big driver, yes, as we mentioned earlier you've got a lot of growth that's happening here, a lot of growth that's projected here. When the growth comes, it will also increase the O&M expenses, so that's all going to flow.

(8-d) Comprehensive Rate Study - Presentation and Scheduling of Public Hearings (cont.):

Mr. Campbell stated your debt structure, the way it exists right now, is manageable, and your level, you're not all over the place, however, you don't have a lot of room to move right now. With the future improvements, the expansions that are going on, it flows, as your debt service increases your rates increase, and that rate burden.

Mr. Campbell stated cost of service, from a standpoint, and when I say cost of service we're talking cost of service between utilities, cost of service between your customer classes, the residential, commercial general service classes, are they maintaining and cost recovery and levels of equitability; no they're not right now. That is an issue, you are not on a cost of service basis on your rates right now, that is creating issues. Lots in the past you've subsidized from your reserves, and you don't have that luxury anymore nor do we have a policy in place to fund that.

Mr. Campbell stated growth is a big driver, the growth we're looking at right now is just going to take capital and it's going to take dollars to meet those needs. At this point if we sit here and do nothing, what happens, well obviously we can't meet our operating requirements, and we're not going to be able to create the revenues that are required to operate the systems sufficiently.

Mr. Campbell stated deterioration of credit, this flows up to your ability to issue debt, to get funds to do your projects, your R&R projects, and your expansion projects. That deterioration creates where you can't fund your capital improvements.

Mr. Campbell stated while you have some ability now, if you act to levelize the rate increases possibly, the longer you put it off the higher the rate increases are going to be. Eventually something is going to have to be done and it just gets worse, it steamrolls as you move along.

Mr. Campbell stated right now, again, as I mentioned earlier, we're looking at fiscal year 2007. Here we've laid out your revenue requirements. If you remember I mentioned your O&M expenses, your operating expenses, your debt service, other transfers, other needs, and we backed out the revenue to get to the net rate revenue or fiscal requirement. We've got the systems laid out separately and a combined. For FY2007 we're looking at \$56.6 million as a revenue requirement for the combined utility system.

Mr. Campbell stated here we're looking at your rate revenues (electric), what's being produced, by customer class as well as what the revenue requirements are. You'll see in the first column that your revenues being produced, the second column is your revenue requirements. If the difference is positive that's showing an under-recovery, or that your revenue requirements are higher than what your rates are producing. If it's a negative, for that customer class, it would be what we call an over-recovery. He stated for residential, it's under-recovering about \$1.6 million. The non-demand is about a \$420,000 under-recovery. One thing we've done because you keep the records and you're able to track it like this, is we've actually split it apart. In your demand class, you have a general service demand, and we've split these apart simply because we have the ability and they had different operating characteristics. The customers affect your system a different way so we split it apart to reflect that. Your general service demand on the rates that you are on, have an over-recovery of \$340,000 and your large demand is under-recovering by \$150,000, which for the total electric system, you are under-recovering a little over \$1.8 million.

(8-d) Comprehensive Rate Study - Presentation and Scheduling of Public Hearings (cont.):

Mr. Campbell stated this is what I was talking about when we were talking about the cost of service rates, we're looking at between these classes, what is the impact that individual customer classes are causing on the system. That is what we're concerned with and are they returning those revenues for what they're causing on your system basically. Our goal is to get each customer class to where it should be, to where it's paying its own way. That is not where it's been in the past and it's not just this system here, for your utility, it happens in a lot of them. What happens is you bump up rates to meet something, you do an overall system requirement, maybe we need 8% and you bump everybody up 8%. Five or ten years down the road, when you've done that a few times, things just get out of whack. He stated you are not outside the norm by any stretch of imagination, but it is still something that you want to address. We don't necessarily propose that you get there all at one time. What we do propose is you take a look at what's truly happening and let's move in that direction.

Mr. Campbell stated in looking at the water system, same thing, first column is our revenue and second column is your rate revenue requirement. You can see on your single family, the residential, you are over-recovering by a little over \$136,000 and the rest of the classes are under-recovering. Multi-family by \$159,000, your non-residential class by \$105,000, irrigation's under-recovering by \$182,000; for a total system under-recovery of \$310,000.

Mr. Campbell stated wastewater is the same thing. We have an under-recovery on your single family residential of \$417,000, multi-family of \$190,000, and non-residential of \$378,600; for a total system under-recovery on the wastewater of \$985,532.

Mr. Campbell stated next, what we have here we set out (for electric), if you look for each individual one you'll see we have residential, this is for residential, the non-demand general service, and then as I mentioned earlier we've broken apart your general service demand and then into a large demand class. First column in each block is going to be what your existing rates are and then what we propose moving ahead, and again these are for 2007. He stated I won't go through each individual one and read all the rates for you, I know you've got it in there, but I'll be happy to answer questions on that, what our process, what our train of thought was on that, but we adjusted for the most part where we could as I mentioned earlier to get to a cost of service basis. We didn't do that all the way on some just because of the way it was off from a cost of service basis, we couldn't justify getting there for all your customer classes.

Commissioner Reynolds stated looking at the chart, it seems to me that your existing and proposed are the same, I must be missing something there.

Mr. Campbell stated if you look at the customer charge they're flat, but if you look at the energy charge, the per kWh charge, it's proposed to change. He stated you only have demand on two of them, on your general service, and those have been adjusted, and if you look at the energy charge, the last one, all of your classes have the energy charge and that we've adjusted. We kept your meter charge, your customer charges, where they were. He then commented are you trying to tell me I'm not painting a clear picture.

Chairman Para commented there's lots of dots and lots of zeros behind it.

Commissioner Diesen commented no, we're just stunned by the information.

(8-d) Comprehensive Rate Study - Presentation and Scheduling of Public Hearings (cont.):

Mr. Campbell stated then we move into the water and the wastewater, we've done the same thing. You'll notice at the top we've got your water and we split it up as the top your water and the bottom is your wastewater. He stated what we've done on the single family, you have your existing and proposed, the top shows basically your fixed costs. If you look right under water it says billing, reuse subsidy, base, and then total fixed, these are your customer charges, your fixed costs and charges. If you move below there, your gallonage, that's going to be your consumption charge and your variable costs. If you remember what that was from the cost of service side, what the under-recovery was on the irrigation, on your right. If you'll look on the rate structures, your single family and your irrigation those we've kept at four blocks. We've moved others or kept multi-family at one block, your non-residential we've moved to two blocks. What we're doing there is we're looking at it from a conservation issue. Your irrigation and your residential those are going to be the ones with your watering and things like that, doing what we would call discretionary use. We tried to get the blocks to reflect that too and give a pricing signal. On the multi-family, there's not going to be an irrigation involved, there's no sense blocking that, what they're using, that's family usage. Same thing on your non-residential, there may be a small portion for watering, irrigation, most of that is a process so there's not necessarily a lot of room to cut back. Maybe they could change the way they operate some but for the most part that's service driven.

Mr. Campbell stated and then with wastewater, it's the same thing, on the top portion the billing, reuse subsidy, base, and total fixed; that's your customer charge. Below that your gallonage charge, block one and block two. Currently with your existing single family you have a two block rate structure, we moved that to one and left it on one for all of them. The reason being we've applied your conservation, the pricing signal, in your water usage because your wastewater usage bills on your water. So we've applied the conservation pricing signal in your water usage. If you follow on down there, the blocks, if you look at number three for your footnotes, our blocks are 0 to 2,000, 2,000 to 5,000, 6,000 to 15,000, and then everybody above for your single family and irrigation. Your average user right now, your average consumption is about 4,500 gallons.

Mr. Campbell stated a typical residential monthly bill, at 1,100 kWh, here's what everybody likes to see for some reason. Right now at 1,100 kWh your existing bill's going to be almost \$119 a month, with our proposed rates you're at \$124.07. You can see on here where you compare with the other utilities. The average for the other utilities is \$118, about where you are right now, current rates are about at the average. At \$124.07 you're going to move a little above average but still will be well below the maximum of \$146.82 with Vero Beach. One thing I would like to point out with these is while everybody likes to see these and apply these and say we're higher or lower and feel great about that, these are always tough to use because while we know you want to see them we also realize it's not necessarily apples to apples and it just can't be. If I look at these, and I do JEA's work, so I know what's happening with them, I know what's happening with quite a few of these actually. You don't know if they're doing the same things, take the same pride in their system, same goals in their system, you don't know what their growth is, you don't know if they're spending money to get their system where it needs to be. You also don't know if they're two months away from doing the exact same thing that you're just finishing up. That's the problem with this, it's tough, it's not an apples to apples comparison on this. But I realize you still like to see where you stand in your area and in your arena.

(8-d) Comprehensive Rate Study - Presentation and Scheduling of Public Hearings (cont.):

Mr. Campbell stated on the water and wastewater, your average is 4,500 gallons and we're looking at 5,000 gallons here. On your water for a single family customer, your existing is at \$17.45, the proposed rates will put it at \$17.23. If you remember on the cost of service basis we're trying to get these where we can do this, trying to get it to a cost of service, so we moved the single family customers down a little bit. A lot of that is tied to what we tried to do with the pricing signals for conservation issues. The wastewater customer will go from \$31.02 to \$34.77. Combined you went from a \$48.47 to \$52.00, so \$3.50 a month. In our comparison with the other utilities, right now your \$48.47 would compare with the \$46.26 for the average utilities combined and then to \$52.00. The average minimum of \$29.32 and the maximum of \$87.27.

Mr. Campbell then said the next slide (projected operating results – electric system), what we've done is we've taken what we projected, what we've proposed for 2007, moved that ahead through 2010. We projected your customers, your growth, your sales along with that. We've projected your O&M expenses, what's happening with your operating expenses, other revenues that you expect to come in. We've also taken the capital improvement plan, the program that you had, we've applied that, issued debt against that, issued debt where you're able to issue debt, and also rolled through the other transfers. You have some mandatory, some renewal and replacement, some R&R transfers, and you have some mandatory City transfers that you have to take into account to get to a bottom line number there. One thing that we have done and will show as we go through, the next slide is going to show the electric system, the water and wastewater system, and then we're going to show a combined system. As we get to the bottom there's one thing that we're trying to do here, as I mentioned before, is you have no reserve and no policy for building reserve. Our goal is to build you up an operating reserve of 90 days, fairly standard on that one. We know you can't get there over night or next year without looking over your shoulder. What we are proposing to do is to get to that 90 day reserve, which is 90 days on your operating, your O&M expenses, by 2010.

Mr. Campbell pointed out on the top line you will notice rate adjustments, 2006 and 2007 doesn't have one. We have already told you what our proposals were and what we recommend for rates on that. For 2008, 2009 and 2010 they are 20%, 15%, and 5%. He stated this is where I mentioned if you do nothing it will just get higher. That's what happens here, we're trying to ramp them up, get you on track where you need to be right now, we can back off of that. A lot of this depends on what happens, this is going to be a constant checking process for you as you move ahead. A lot of this is CIP driven, project driven, are those projects going to happen, are those projects going to happen in order and do they need to happen in the order that we're proposing that we've got laid out right now. Some of those things may adjust, some of those numbers, some of those rate adjustments may adjust, they may go higher, they may go lower. Some things as we're looking at 2007 we're fairly certain on that one and a very good idea on the numbers that you're going to need there. There's a lot of uncertainty moving ahead, in the out years, of what's going to happen and the adjustments there. This is an ongoing process for you in keeping up with what's happening with your own system.

Mr. Campbell stated on the water system we've done the same thing and if you look at 2008, 2009, and 2010, we're also proposing 25% rate increases. He stated in the wastewater we've got 25% for 2008 and 2009 and drops to 15% in 2010. He stated keep in mind what those rate increases drove, they drove your R&R Fund, your transfers, your increased operating expenses, they're driven by what your CIP is, what your projects, debt service, and also driving that O&M reserve fund that

(8-d) Comprehensive Rate Study - Presentation and Scheduling of Public Hearings (cont.):

we're trying to build up. What we've done on the O&M reserve fund, the way that's been funded is for 2008 funded at 7.5%, 2009 at 15%, and then by 2010 we brought it up to 25% of your operating expenses. We're looking at the same thing, at the bottom your unrestricted reserves, we have your beginning operating balances and your revenue surplus. Right now for 2005/2006 you're operating at a deficit. We shot for basically a break even in 2006/2007, not trying to start building up, just trying to get you on an even keel here. We started working on building up that O&M fund by the time we got to 2007/2008 and moving out to 2010. If you see that transfer to capital fund, those were directly tied to your revenue surplus, that O&M fund that we're trying to build up to the point where the revenues produced excess funds, if you will. We pushed that back into the capital fund because we were only shooting for that 7.5%, 15%, and to get you at 25% or 90 days in 2010; that's what that line item is.

Mr. Campbell stated Capital Project Funding is what drove a lot of it. If you look at 2006/2007, starting at a zero balance, you have existing funds at \$2.5 million, about \$7.85 million from a community development, restricted R&R fund, which is funding some projects. You also have a mandatory R&R and then we have three issues if you look in 2007, 2008 and 2009, it totals up to \$60 million in bond issues. For FY2007, we've got a total on your project uses of a little over \$32 million, so from your revenue sources it creates a surplus of almost \$11 million which carries over into the next year. As we move ahead we start funding from rates, as I stated before we were just getting to a break even point for 2007, didn't try to throw in anything extra but there were only certain things that you could fund through debt service, by issuing debt. Just in the way you're set up, in the way you're coming out right now with your covenant requirements and your parity ratios, you are limited in the debt that you can issue right now, today, without doing anything. That's where that funding from rates comes in. If you see and remember 2007 and 2008, 2009 and 2010, the rate increases start stepping up, that's driving a lot of it there too as well as the debt service associated with those. This is basically a map and a plan of where we see driving your capital projects and where the funding's coming from there.

Mr. Campbell stated what we've proposed, what our goal was is obviously to provide sufficient revenues to meet your operating, your revenue requirements, your fiscal requirements. We tried to move to, if you saw we weren't able to get there in all of them, we didn't propose to get there in all your classes, but we tried to make them as equitable as possible between the classes. Just not practical right now from a customer standpoint, some of them you were just too far away, you need a few years to be fair to you and fair to your customers. We wanted to make sure you had rate structures that did what you were trying to accomplish, that gave the pricing signals to your customers from a usage standpoint, conservation standpoint, for your statutes, and things that are driving what's happening with your system right now. We wanted rate structures that you are able to use with your billing system. It doesn't do any good for us to propose something that you can't do right now. We're looking at cash flows for you that are going to give you a stronger financial statement, let your utilities stand on your own and give the signal that you would like them to give.

Mr. Campbell stated our findings are you've been fairly constant for the past few years, you've got a lot of growth and a lot of stuff is driven by growth, it's got to be paid for somehow, and you need the revenues to fund that growth. Also conservation measures, right now while you were set up we didn't feel the rates that you had, the way they were structured, the way they flowed didn't necessarily send the signals that we were wanting to send. These proposed rates, we need to look at

(8-d) Comprehensive Rate Study - Presentation and Scheduling of Public Hearings (cont.):

those, this isn't something that you just put in and stop, things are going to change. Those percentages that we were proposing may not be the same next year, they are driven by your CIP, driven by the growth, driven by the order of your projects, and by the magnitude of your projects. There's a chance to do some things with your debt. What we're looking at right now, we just have the ability to work with what you've got right now. You have some room to move, your staff looks at this and is doing this, and there are ways to make some changes but where you are at right now reflects what we're proposing.

Mr. Campbell stated we're looking at greater equity in your system. We want to make sure you provide us sufficient revenues to do what you need to do to operate your system, to grow your system the way you need to do it. We don't want to look at in your billing system any disruption, any changes, your customers are going to see it the way they're use to seeing it, your staff is going to be able to do it the way they're use to doing it. He stated regarding conservation, the incentives, we're trying to give the pricing signals to your customers for the conservation; to reflect what you need, to reflect the pressures you all are getting.

Mr. Campbell stated what we would recommend right now, we would recommend the rate increases that we proposed and recommend that you proceed to notify the customers. We would also recommend that you modify your rate structures and look at a June 1, 2006 rate adjustment. Also recommend that you keep monitoring, find out, one thing, the pricing signals, are they actually responding to your pricing signals. Look at your water usage, consumptions, and look at your revenues that are being produced. Mr. Campbell then asked if there were any questions.

Commissioner Hall inquired about how many years the study covered.

Mr. Campbell answered the study started out initially at five years and we're about through the first one, so we've thrown out that one and actually looked at the next four years, starting with fiscal year 2007.

Commissioner Hall stated in looking at one of the first pages you mentioned projected shortfalls, \$3.1 million, is that a five year projection?

Mr. Campbell stated that's for next year, that's for 2007, if nothing happens, as you stand currently.

Commissioner Hall commented and we have 20 year old trucks, etc., etc.; maybe I'm wrong but it seems to me as if we're in deep yogurt.

Mr. Rodi asked to interject and stated I think there are two ways to look at this, the short term is immediate for next year. As you may recall, the CIP presentation, in that presentation is a \$43 million investment in water infrastructure and the structure of that investment was to occur over the next five to ten years, we don't know. It's either our investment which is the way we were approaching it, to harvest water on our land, to have the deep brine well extraction and injection system so that we would have water resource, and most of that depends upon how quickly we grow. If you look at the numbers that are in this month's General Manager's Report, there's a tremendous taper on the number of new builds. I'm talking about brand new homes, new meters. Now, if this is just a lull, but if you drive around Sugar Mill, Pioneer and a lot of areas out through there, they're

(8-d) Comprehensive Rate Study - Presentation and Scheduling of Public Hearings (cont.):

doing a lot of prep work and homes will be next. What I think was said is this is going to remain a very fluid document, for next year it's pretty clear this is what we're facing. There's some discretion in there as to when you time some of these items. For example, later on in this meeting, we want to talk a little bit about infrastructure cost. The 20" pipe that we need to send out west, we haven't received solid numbers yet on the wastewater part or the Bright Water, just for that same corridor. Those dollars that we expect that we'll have to invest just in that western end we're trying to account for them and finance them through a Community Development District. That's another presentation, you've not heard anything about that yet, and we'll have to understand that as a funding source. There are a lot of other parts of this as we move forward so that if we find out that we can segment the water harvesting, instead of a \$5 million block in 2007, we may move to \$1 million or \$3 million and it may cascade. Those are the things we don't know. The assumption in the CIP was that we were going to have this very rapid build out rate so we took a very liberal view of that. This approach reflects in the first year more conservative and then after that it reflects what's in the CIP.

Commissioner Reynolds asked Mr. Rodi, for us to get a handle on this is it possible to get a good picture of what the infrastructure costs would be to bring our systems up to our standards, considering zero growth? In other words if we have zero growth what is it going to cost us to bring the system up so that we can take a view of that, to have that as a baseline, and then the flexibility as you just mentioned, we would sort of have a good figure on that.

Mr. Rodi stated that's exactly what the studies are doing. On the phase one study, it said immediate, and the immediate needs are both growth related and existing. The phase two part is structured the same way and although we haven't got far enough down the road in the rest of the water area, it will be structured the same way. Likewise, for the electrical system, we're doing load flows studies right now on a baseline, what are the conditions of the circuits, what happens to them when you have to put them under extreme load. For example if we happen to lose a transformer and then load up the other circuits to carry those loads. So we're anticipating what the normal operating conditions are and then after that we're plugging in when we start building out west. So what we're trying to do is to incorporate both the baseline of what we need to do and then what happens when growth hits us and the growth sometimes is the variable. If for example, in the western end right now very shortly, depending on how many more homes are built in the Venetian Bay subdivision, we may be bumping up against fire flow requirements, so the only answer then is to put in that essentially 20" line to get out there. So that's the kind of dilemma that we are saddled with at the current time and that's why we took a study approach to see how much time do we have; so some of it is very imminent.

Commissioner Reynolds stated what we're saying is the existing ratepayers pay for growth and not necessarily just their own infrastructure cost increase.

Mr. Rodi stated no, I don't think so.

Commissioner Spangler interjected before you answer that I'd like to say the same thing. The question is we have \$43 million in capital improvements here and we're talking about the growth out west and we're talking about rates. Where Commissioner Reynolds and I are going is how much of that \$43 million is growth and how much of that growth is going to be paid for by the

(8-d) Comprehensive Rate Study - Presentation and Scheduling of Public Hearings (cont.):

existing ratepayers and we haven't addressed that. I think that's what he's asking and that's what I'm going to ask to, we're going to increase rates on the existing people but that's going to be hopefully for the portion of capital improvements that we need to bring our existing infrastructure up to snuff and to handle the increasing costs that everybody has. But the cost of the growth, I hope that when we pay for that growth that the rates, that the existing people pay don't pay for that growth. I think that's probably where we're headed but I haven't heard that in these numbers; so that's my comments on what Commissioner Reynolds said.

Mr. Rodi stated okay, I'll try to focus it again. For purposes of financing, the CDD District represents the growth investment. That's how we try to distinguish the growth area, so the 20" line goes out west, the 12" water line loops, they have corresponding investment for wastewater and Bright Water pipes. We also have electrical investment in terms of substations, in terms of additional circuits to supply that area and that growth needs to be paid for in that area. We have, for example, in the water plan a new 20" line to go from Glencoe to Smith Street. That's a low pressure line, that is because the whole system needs this supply, it conveys to the whole system and that would be paid for by the ratepayers. So as we've gone through this, for example the water storage on Third Avenue, that's existing, it reflects something we took down before, we have to put it back, so that's existing customers that would pay for that. Maybe it's appropriate to talk about the Developer's Agreements, they had previously focused within the subdivisions, and the capacity fees that were reflected in those development agreements looked at some portion of the water plant and the wastewater plant, had nothing to do with the pipes to serve them. So now we have a capacity that's being paid for by these new developments but all of the piping infrastructure and electrical system, all of that, was not taken into account. What we're attempting to propose and the reason why we pulled the Developer's Agreements off the last agenda, was to specifically address the issue. Once we sign one of these then I have the understanding that we can't go back and say now you have to pay for infrastructure. So the purpose of the modification provision in another agenda item is to say we're looking for an equitable way to pay for this infrastructure so you can have water and its for new development. We have an interim provision and then we have the CDD part. So what we're trying to do is to get through this interim ground right now to say you need to put in and pay for a 10" water line in order to supply your new subdivision and we want you to pay for that because it's new growth. The growth is far beyond traditional, historical levels, and we're trying to base it upon a common understanding like ERU's, equivalent residential units, that are relatively well understood. So that someone would pay for that capacity of that infrastructure to supply that subdivision. So in looking at the subsequent years, the harvesting of water and providing additional potable water is either going to come out of a WAV pocket and it's going to be as expensive as that, or its going to come out of our own harvesting pocket and build an emergency water source. So that was part of the water strategy that was discussed in the CIP.

Mr. Rodi stated the reason we wanted to represent the O&M cost also with the CIP is, and very candidly, nothing gets done without employees. We'll need contractors and I know Mr. Judah doesn't like to hear that, but what we have to do is add employees, we use contractors for peaking, and then have the residual employees we need to maintain the system once the build out is all done. So this is a very complicated juggling act that we're going through. If we can, for example, get the water harvesting concept to work, it will be very valuable and hopefully it can be replicated some place else. The way we have to approach that is very shortly we're going to go out for an RSQ to say here's the idea, who has this background that can help us not only with potentially power

(8-d) Comprehensive Rate Study - Presentation and Scheduling of Public Hearings (cont.):

generation with a co-product of water, but principally can we use this concept of both the surficial wells and deep brine wells combination with some sort of water processing to ensure that New Smyrna Beach has its water supply. Mr. Rodi commented it's really a long winded answer.

Chairman Para stated he would like to say bravo Mr. Rodi, you've done a very good job of taking something extremely complicated, we have a tendency to think with broad strokes up here, and I don't think we are in trouble, I think we've taken a realistic assessment. Let's face it we're a new team here, we've taken a realistic assessment of where we are and where we're going. He stated to Mr. Rodi, you've done a good job of peeling the banana back and saying this is what's attributed largely to this and this is what's attributed to that. He then thanked Black & Veatch personnel for the same thing. We've kind of compartmentalized as best we can but it's a huge agency and you're not going to count every dime and every dollar. I know that when I moved into 214 Palmetto Street I enjoyed the investment of those who went before me and we need to make similar investments for future generations as well.

Commissioner Diesen stated to Mr. Campbell, at the beginning of this presentation you made the statement, I believe, that we've been undercharging?

Mr. Campbell stated yes you have.

Commissioner Diesen stated and so we have been subsidizing our ratepayers.

Mr. Campbell stated right.

Commissioner Diesen stated so let me just be a ratepayer Mr. Rodi and ask a question. First of all our comprehensive land plan says that development must pay for itself so that's not an issue, we have to adhere to that whether we want to or not. It may not have been implemented yet but it will be shortly I feel reasonably sure. So if we've been subsidizing the rates, where would that money have been coming from and then talk to me a little bit. If I'm a ratepayer and I've been reading the papers over the months, my first thought as a ratepayer I might say well what happened to the money in the Rate Stabilization Fund, is that what we've subsidized with.

Mr. Rodi stated yes. I'll repeat an understanding that is obviously secondary for me, but the Rate Stabilization Fund is where the money came from. He confirmed that statement with Mr. Montalvo. Secondly, the money that had been in the Rate Stabilization Fund was used for funding the Communications utility and a lot of the build out structure that was there. Even to the extent of the assets for the fiber system, the head end, they were all under the Electric utility. They have since been broken out, there's \$2.7 million that was spent on asset base that's there. Even the arrears, every month, you saw I think this month it was down to \$100,000 loss in communications, that makeup difference is coming from those other utilities. Now if you look at the bottom line on that chart it says Rate Stabilization Transfer, there's nothing there, I think we're even negative within the Rate Stabilization Fund now. So what's happening is Mr. Montalvo has taken dollars that he would use for R&R and what have you, to fund those particular activities and then any of the revenues that would have been coming, he's applied against the losses for the Communications utility. He asked and confirmed with Mr. Montalvo that he had stated that accurately. Mr. Rodi commented it's not pretty.

(8-d) Comprehensive Rate Study - Presentation and Scheduling of Public Hearings (cont.):

Commissioner Diesen stated no, it's not a pretty picture, and I'm speaking just as a ratepayer and not as a Commissioner, and having probably a better opportunity to see and understand some of the numbers because we've been going over them and over them. But if I'm sitting out there in my house and suddenly I hear all this, and I see all this and I put it all together. The other piece of this, when was the last rate study done?

Mr. Rodi stated I was asking Mr. Montalvo and he said it was in the early 90's, like 1990. Part of the issue with so much introspection that goes on is people voice many opinions and part of what we're trying to do is define and get our arms around this and quantify it to say yes, here is a worse case scenario. That doesn't mean it's going to play out that way but if we don't plan for the worse case and understand what we have to do to prepare for it, then we're not going to be equipped to even take a next step. So what we've been trying to do, just like in this cost of service study, is to say here is what's really happening in the rate classes. Here's what the cost is of serving that particular class, we need to recover that, and then going forward what is the impact we see on the near horizon, and after the first year, by the middle of next year, we're going to have to keep doing this for a while until we can sort out the priorities and the reality of what will actually happen. That's sort of where we are and we're basing our strategies for power supply and water supply to give us the greatest flexibility we can to cover this complex dynamic that we're caught in right now.

Commissioner Diesen stated but it seems to me there's been a lot of "deferred" maintenance.

Mr. Rodi stated this is not pleasant sitting here and explaining this because it says the costs are going up, there's going to be a long term cost increase, and we have to catch up for some of these things because we don't have alternatives now. Had we done it a little sooner we would have had more alternatives now, but we don't. Through analyzing all of this we may learn of an alternative we're not thinking of now, we still don't have enough information, but we are starting to understand what this is. That's why I used that concept of what's this, when you see the little part of the map and then all of a sudden you see boom all of the growth area. We're trying to understand all of the pieces of what's this, and that's what it is, it is an iterative process.

Commissioner Diesen stated to Mr. Rodi I'm glad you're here, I'm glad we have a true change agent in our midst.

Mr. Campbell stated as I said earlier, please don't think that you are outside of the norm, that you're the only ones standing outside in this situation. The difference is you have taken the huge first step, to find out where you stand now and you're being proactive in moving forward with it. You're developing a plan, that's something a lot aren't doing.

Commissioner Diesen stated the only thing that bothers me when you're telling us how well we're doing, I noticed that FP&L is considerably lower than we are and they've been getting beat about the head and the ears all over, in South Florida they've almost lynched them. So I think it's very, very important that our customers get their arms around this and understand because this is going to be big jolt.

Commissioner Spangler stated I'm very comfortable about going away from opinion based decisions and going into study based decisions, and that's what our policy is. I have one question

(8-d) Comprehensive Rate Study - Presentation and Scheduling of Public Hearings (cont.):

for Commissioner Hall. Did the answer you got about what we're going to do about \$3 million plus, did the \$43 million answer explain that to you, it did not to me. So if it explained it to you, would you explain it to me.

Commissioner Hall stated no, I'm not sure if I can explain it to you.

Commissioner Spangler stated I guess what I'm saying is I thought it was two different subjects. I thought the fact that we're going to have a red number for 2006 wasn't related to the fact that we have \$43 million worth of water infrastructure to come up with. It didn't explain to me how we were going to deal with the other, one didn't seem to connect to the other.

Mr. Rodi stated let me try and address some of the cross over. In 2007 we have to begin the installation of the 20" line headed west. We have to, in 2007, install the 20" line from Glencoe over to Smith Street. In 2007 we have to start on the water tank over on Third Avenue. So those CIP costs are there, in some cases it's the CDD, in other cases it's a financing. Those financing costs then increase what we're doing.

Commissioner Spangler stated its really contributing to the \$3 million. He commented life comes at you fast.

Commissioner Diesen added and when you've been sitting back with your feet up. She then asked what about the irrigation, that didn't seem to me like that rate was nearly high enough after our discussions the other night.

Mr. Rodi stated all we're going to do is monitor to see if the pricing signals are doing their job. We were advised, not only by Black & Veatch but also others, about using a rate structure for conservation purposes. The advice in the industry right now is to use that approach. What we're trying to understand is there is a delicate balance between the money that you need to operate the utility and too strong of a price signal. That's why we were advised, look at where this is, it's a modest, depending upon your perspective, it could be considered a modest approach along that philosophy. If you don't believe in that philosophy, it's a major step. We're going to watch that because it does have an effect on our bottom line.

Mr. Campbell stated it's a two way sword like Mr. Rodi's saying, you make our life easier by saying you want the rates to be what it says, great. But like I said sometime when you send these pricing signals people listen and you realize we're not getting the revenues we need to operate the system now too, there's a balance there. He stated that's why, as I said earlier, we have the cost based rates, we have your cost of service, we can't necessarily get there right now and we wouldn't advise it, lets' move toward that direction, that's one of the reasons there, and that was our goal.

Commissioner Diesen stated it was the irrigation, that's the one I'm talking about.

Mr. Campbell stated but that throws dollars into the system, we can't just necessarily just jump and get there.

Commissioner Spangler stated I was under the impression that the wastewater was helping us to

(8-d) Comprehensive Rate Study - Presentation and Scheduling of Public Hearings (cont.):

conserve potable water to the extent that our potable water usage has gone down in five years while our growth's been maybe 20% to 25%. So if we jack the price of irrigation so that we're not losing money on it, that's sort of a disincentive to use it isn't it? Looks like it's almost cheaper to use the potable water again.

Mr. Rodi stated regarding the potable water there won't be enough so we have to do some of the makeup for the Bright Water use and those particular issues. The harvesting of water may become very significant to us in the future all depending upon what else may be happening with regard to water supply so it's very preliminary but we may find that concept is just not workable but we have to pursue it and the dollars are there to pursue it. If its not workable then those dollars have to be allocated in some other fashion or they go away.

Commissioner Diesen stated are we going to institute a policy that we're no longer going to set irrigation meters of potable water.

Mr. Rodi stated I think that's where we're headed. There's also a number of people that have well points, they're everywhere. There's just a tremendous draw using well points so there's, as Paul Harvey used to say, now for the rest of the story. I don't know how long this story's going to go on but there's a lot more to it.

Commissioner Reynolds stated just so we sort of have a base line as I see it. Number one because we haven't had a rate study in more recent years, we're somewhat behind in collection of funds to support increased infrastructure, improvements, etc., and our foray into telecommunications has further exacerbated that particular problem. We're correcting that, the telecommunications part and with the Rate Stabilization Study we should be able to implement programs that bring our infrastructure up to speed as well as how we anticipate future growth, which in essence really has to be judged on month or quarter basis. Is that a decent summary?

Mr. Rodi stated yes, I would concur with that.

Chairman Para commented you hit all my points as I wrote them down, that's very good. He then asked if there was a motion to schedule the April and May public hearings.

Commissioner Reynolds made a motion authorizing the scheduling of two public hearings for adjustments to various electric, water, wastewater and reclaimed water rates for April 17, 2006 and May 15, 2006, preliminary and final respectively, at 6:00 p.m., prior to the regular U.C. meetings on those dates. Commissioner Spangler seconded this motion and it passed unanimously on a roll call vote.

Chairman Para thanked Black & Veatch for their presentation and their quality work.

Commissioner Diesen requested a quick break.

Chairman Para then called for a recess at 8:05 p.m., and then reconvened the meeting at 8:15 p.m.

(8-e) Street Light Rates:

Mr. Rodi stated this is very similar to the cost of service study. It is to request the authorization and scheduling of two public hearings for the adjustment on the street light schedule, it's a part of the rate structure.

Commissioner Spangler made a motion authorizing the scheduling of two public hearings for street light adjustments, for April 17, 2006, and May 15, 2006, preliminary and final respectively, at 6:00 p.m., prior to the regular U.C. meetings on those dates. Commissioner Hall seconded this motion.

Commissioner Reynolds asked are we using the latest technology in illumination for these streetlights that's not costing as much.

Mr. Rodi stated I think the short answer is no, it's depending upon where we are in town and who owns the lights. Part of what this gets into is recovering your initial investment. If we move to the more efficient light then we're into another recovery pattern. I don't think we've looked at that and he asked Mr. Mitchum about the kind of luminaries we've been using. For example as I've driven around the town I don't see any GE rectilinear lights, I see some high pressure sodiums in some locations.

Mr. Mitchum stated we're going to high pressure sodiums, we're replacing mercury vapor. Those are more economical as far as the studies go.

Mr. Rodi stated so there's a migration path and then even beyond high pressure sodiums there's metal halides to move to and then there are questions related to metal halides that you don't have with high pressure sodiums. It seems like it would be a simple subject but it's not, like everything else anymore.

Commissioner Spangler's previous motion then passed unanimously on a roll call vote.

(8-f) Agreements for Engineering Services:

Mr. Rodi asked Mr. White to come up and discuss this item.

Mr. White stated what we are endeavoring to do here is replace some expiring contracts that were negotiated in 2002. They were negotiated and executed for a four year term maximum, those will all expire this summer. These contracts are zero dollar contracts, they are framework contracts called Continuing Service Contracts. As a project develops then there's a secondary contract called a task order that contains the scope, the fee, the performance, the schedule and critical details like that. This is a framework allowed for by Florida law that allows us to deal with professional services companies on a continuing contract basis with task orders for projects that are expected to cost under \$1 million in a construction sense or studies which are expected to cost under, I believe, \$150,000. It saves us going through an RSP, RSQ again and again for smaller projects. Projects above those thresholds we still have to solicit again every time.

Commissioner Diesen asked if the unit prices have gone up appreciably?

Mr. White stated it's a little difficult to say, every company of course has a different cost and price

(8-f) Agreements for Engineering Services (cont.):

structure. Small, local companies with one or maybe two offices have a lower cost and pricing structure than nationals. We have here kind of a sprinkling of each but with the nationals you get specialized experience and skills that a lot of small firms don't have; so yes and no.

Commissioner Diesen stated good enough, thanks.

Commissioner Reynolds asked Mr. Preston if he had a chance to review these contracts?

Mr. Preston stated I did review these, I did not draft them, but I reviewed them, the former counsel did the drafting.

Commissioner Reynolds asked if there were any problems with these?

Mr. Preston stated there were no problems that I could see.

Commissioner Diesen then made a motion to authorize the General Manager/CEO to execute the Agreements for Engineering Services with Quentin L. Hampton Associations, Inc., Dyer, Riddle, Mills & Precourt, Inc., Schweizer Waldroff Architects, Inc., and Universal Engineering Services, Inc., as submitted. Commissioner Reynolds seconded this motion and it passed unanimously on a roll call vote.

(8-g) Discussion RE: Infrastructure Costs and Addendum Agreement for Developer's Agreements and Developer's Agreements for Smyrna South; Sabal Lakes; Downing Oaks Subdivision; Venetian Bay Phase 2, Unit 1 and Venetian Bay Phase 2, Unit 2:

Mr. Rodi stated the individual agreements that are listed here are for Smyrna South, Sabal Lakes, Downing Oaks, Venetian Bay Phase 2, Unit 1 and 2, and staff doesn't have any issue with the agreements per se. The reason why these are here, for purposes of discussion, is the addendum. The developers haven't seen this or had any opportunity to reflect upon it. I have asked Counselor Preston to look at whether the developer agreements would allow, in their current state, allow for infrastructure charges for new growth. Once the existing developer agreement is signed it is my understanding we would have limited opportunity to recover for infrastructure that we would have to provide to these new subdivisions. Prior to establishing our CDD, the Community Development District, in order to provide a funding mechanism as well as a structure for financing new growth for developers, ourselves, the City, to participate in, I was trying to find some middle ground. The middle ground being that we would ask and have put into some kind of an escrow account the costs for the growth on an equivalent residential unit basis so that when we would build the infrastructure, within five years, or even after five years for a developer that does not immediately being to build, that we would be able to recover the costs for this infrastructure investment.

Mr. Rodi stated so what I would be requesting is that Counselor Preston and myself have the authority to be able to finish crafting this document and to authorize the signature that I would make to commit us to receiving the money to either put into an escrow account or whatever in order to allow these developer agreements to proceed. So two parts of this, one is developer agreements as they would have traditionally gone through here, they're fine, but they would be contingent upon the developer then agreeing to paying for the infrastructure that we would have to provide in order

(8-g) Discussion RE: Infrastructure Costs and Addendum Agreement for Developer's Agreements and Developer's Agreements for Smyrna South; Sabal Lakes; Downing Oaks Subdivision; Venetian Bay Phase 2, Unit 1 and Venetian Bay Phase 2, Unit 2 (cont.):

to supply their subdivision.

Chairman Para then asked if a motion should be made and then discussion.

Commissioner Reynolds made a motion to permit Mr. Rodi and Mr. Preston, Esquire, to continue to work on these documents with the developers. Commissioner Diesen stated she would second for discussion.

Commissioner Spangler commented he's just amazed, and stated I have a note that says here site unseen. Otherwise this is not a developer's agreement that is binding on the developer at this point then, and if it is does this addendum agreement, is that legal that they sign an agreement and then they agree that when we add to the agreement that's going to be a part of it too? I don't understand this.

Mr. Preston stated two things, first of all the agreement is not a consummated agreement inasmuch as the Utilities Commission has not executed that agreement. So at this point it is simply an offer to make an agreement as you will. Secondly, in regards to the motion that is on the floor for discussion, may I suggest we go a step further as the motion simply authorizes continued development and negotiation. I would suggest that since we have actually pulled these developer agreements in the past they have been sitting and the primary developer agreement is one that you have had to review and is a form that we have used in the past in terms of format, that Mr. Rodi be granted the authority to actually execute those documents, that developer agreement, as well as to grant him the authority to negotiate and execute an addendum based on the representations that the purpose of the addendum is to deal with in essence a developer that comes to the scene at two different occasions. One developer coming to the scene prior to any infrastructure improvement and that developer being required to escrow monies based on a pro-rata share into an account for a period of five years during which time any infrastructure improvements would draw from those monies. After which, if there were no such improvements, the monies would be returned to the developer. Developer number two would be that developer that comes to the scene after such infrastructure improvements have been made but within the past five years and that developer coming to an already improved area would also share pro-ratably in the costs of that infrastructure improvement. That is if you were to authorize Mr. Rodi to negotiate, formalize, and execute such addendum to our current agreement and that this agreement that we have primarily is contingent upon a developer entering into that agreement. That would be what I would suggest in terms of a modification of a motion.

Commissioner Spangler stated that is what I'm asking, is that going to be legally binding?

Mr. Preston answered that motion and should it be approved, yes. It would be because currently we don't have an agreement at all. The first question raised was if we had an existing agreement with a developer and then subsequently wanted to compel that developer to contribute to infrastructure costs, we could not. But at this point we do not have an agreement so we can come to most any agreement that we can in terms of execution.

(8-g) Discussion RE: Infrastructure Costs and Addendum Agreement for Developer's Agreements and Developer's Agreements for Smyrna South; Sabal Lakes; Downing Oaks Subdivision; Venetian Bay Phase 2, Unit 1 and Venetian Bay Phase 2, Unit 2 (cont.):

Commissioner Spangler stated so this is just like an agreement to negotiate.

Mr. Preston stated that is what I would like to carry the motion beyond.

Commissioner Spangler stated we're not telling these developers they can go ahead, we're saying we're giving you a preliminary approval but we're going to tell you what else you have to do.

Mr. Preston stated the addendum that you're speaking of is one that will be crafted, it's actually 95% crafted now. We're looking at a matter of hours actually and few days to have the actual addendum of the contract, so then just tie that into one package, sit down with the developer and say this is the developer's agreement.

Commissioner Spangler stated so the developer won't sign anything until that addendum is on there and we're giving permission to put the addendum on there, to modify the agreement.

Commissioner Diesen stated and you've had some preliminary discussion, correct, with some developers.

Mr. Rodi stated Mr. White has carried that burden.

Commissioner Reynolds asked to withdraw his motion and restate it. He added probably not as eloquently as Mr. Preston, Esquire had stated. Commissioner Reynolds then stated I make a motion to permit Mr. Rodi to negotiate these contracts to include the addendum to these contracts, and to execute the contracts. He then asked Mr. Preston if that would be good enough.

Mr. Preston stated yes it is.

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

(9) Possible Other Business – Time for Commissioners:

Chairman Para stated Mr. Rodi had stated earlier he wished to speak during this time.

Mr. Rodi stated I now have three items to talk about. As you may have noticed a Mr. Patterson who lives on Glenn Circle was requesting that he be able to receive water service in that the U.C. will be installing a water line in and around the vicinity of Glenn Circle adjacent to his home and he was not aware that the U.C. would be doing this. I really don't know the details of whether this was a water line extension that was approved by the City Commission specifically for a limited area but it would seem to me that if the homes on each side of him were planning to take water that we could include him. So not knowing the detail of it, one I wanted to bring it to your attention and let you know that if we're able to accomplish that it seems reasonable to do so and I don't know what the outcome will be until Mr. White and I have a chance to go over the actual facts on this. I promised Mr. Patterson that I would present this to you, that's why he was here this evening.

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

Commissioner Reynolds asked if Mr. Rodi needed any action now?

Mr. Rodi stated I would assume that is within our authority if there's a water line extension that's already been granted.

Chairman Para interjected I think that is a matter for Mr. Rodi to take care of.

Mr. Rodi stated second item that I have relates to the CIP. Part of our strategy was to strengthen our connection to the transmission grid and I had mentioned that we very tentatively have the beginnings of Florida Power & Light (FPL) willing to invest, at their expense, for a 230 KV substation to be adjacent to our 115 KV station just north of S.R. 44 and west of I-95. I would like to proceed with that and part of what our discussion will center about is actually the location, some of the financial aspects of this, and trying to do some preliminary work because we'll have to reconfigure our existing 115 KV station once this is built. Timelines would have to be established, my guess is we're looking at the 2008, 2009 time frame. I had mentioned in my last conversation with a representative from FPL that we would be discussing the capital aspects of this in our Capital Improvement Plan. We would also then have to have a specific discussion about whether or not the Commission would support further engagement of FPL for this station. At this point we have nothing more than to declare it. If there is an agreement, then you would have to approve that contract and FPL recognizes that, so what we're asking is that we would proceed with that endeavor.

Chairman Para asked if Mr. Rodi would like that in the form of a motion?

Mr. Rodi stated he thinks at this point yes.

Commissioner Diesen then made a motion authorizing staff to move forward with discussion about an agreement with Florida Power & Light for a 230 KV substation to be located in the vicinity of our existing 115 KV substation north of S.R. 44 and west of I-95. Commissioner Reynolds seconded this motion and it passed unanimously on a roll call vote.

Mr. Rodi stated the last item I have, it's a policy related item even though it's a technical item. Staff discovered that in the analysis of easements on a property on North Peninsula that on the back of this property is a 100' wide transmission easement that goes all the way over to Swoope. This transmission easement was granted by the State of Florida. The technical aspects relate to providing additional power supply beachside in the future and what Mr. Beyrle has done is looked at the loading on the existing circuits and how much capacity is there. We also have a line that we purchased with the acquisition on the south end, goes through the swamp, the old FPL line. That particular corridor, I would imagine, can be used for providing additional supply on the south end of the beach which would then relieve some of the load in the middle part of the beach. I also hold the understanding that our existing crossings, both on the North and South Causeway can be added to and we're researching that.

Mr. Rodi said the policy question is simply this, in the discussions within the City Commission they are looking at the use of the Swoope site for other things. This particular issue right now is focused only on the Peninsula property which originally was to be a substation site. We don't see that we

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

will be putting a substation there however we may need additional capacity on the beach at some point. The policy related item is if we don't own the property then the transmission easement is a very rare thing. We can, for purposes of that land on Peninsula and then we would face the same question on Swoope, retain some small portion for a landing if we were to ever put facilities. For example originally I think it was anticipated to be an aerial line and we would probably use submarine cable as a way of reaching the area. I did not want to engage this privately without publicly talking about it because if we walk away from this transmission easement I did not want it to be done without your knowledge and that's why I raise it here. It seems to me as if we would have the capability to provide additional capacity from our existing circuits and also add another circuit, but that's not conclusive yet.

Commissioner Diesen asked if you can in fact walk away from an easement granted by the State of Florida?

Mr. Rodi stated I think it's a matter of just not using it. I don't know whether we would have to officially abandon it, it's a legal issue and I don't know the answer, and/or whether or not we can overlay one easement on another easement.

Commissioner Spangler asked if this has to do with the Callalisa Creek matter?

Mr. Rodi answered yes it does.

Chairman Para stated the only thing I would maybe ask you, is this something that can be answered or advised when the energy study is done that's coming up here in April? That way we're looking at it strictly from the standpoint of future utility needs. Just like it was done this evening we can then be advised this is something. I'm reluctant to give anything up because very likely it will be something of importance in the future for utility customers so I would simply say there's got to be some accommodations made for our usage of the property.

Commissioner Spangler asked if there was a lot of pressure to conclude this?

Mr. Rodi stated I think there is but added there's a lot of pressure about everything. My concern was we're doing these studies about what our load forecasts are and what growth there would be. The likely assumption is that the build out on the north end of the beach is pretty well completed, the mid-part of the beach is pretty well completed, and the south end is not, there's a lot of potential there and we have another access corridor. Just from very preliminary looks we're trying to see how reasonable is it to retain this if we really wouldn't cross there anyhow. We might just want to put another circuit, for example, on the South Causeway area and be able to go south, or we may want to drag something through the swamp and put a submarine cable in through the swamp which would then feed up on the south end. We really don't know right now, my only way of treating this honorably is to make it known and to get your counsel.

Chairman Para reiterated and I think right now we are waiting on that study and secondly we haven't been notified of anything so we may want to take it up when the City Commission lets us know what their intentions are and we can deal with it then. He added to Mr. Rodi a good heads up though.

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

Mr. Rodi stated I think they are waiting on me at this point.

Chairman Para stated well, I'm thinking the trigger is the study.

Commissioner Diesen asked if Chairman Para wanted to get a consensus from the Commission or was that a unilateral decision?


Chairman Para stated why don't you do that then, weigh in on it, I'll share this.

Commissioner Diesen stated I think you might want to get a consensus from all but I do think that's the prudent way to look at it. I understand the pressure and I understand the politics of it all but somewhere someone goofed up too and didn't discover this until late in the game so I think now the only thing to do is to look at it from our point of view with the study as Chairman Para said and see what comes out of that. Hopefully it will all work out amicably for everyone, including us and the City.

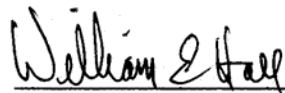
All of the Commissioners concurred with Chairman Para and Commissioner Diesen's statements regarding the easement, to wait to view the results of the electric study.

There being no further business to come before the Commission, Chairman Para adjourned the meeting. Chairman Para closed the meeting at 8:43 p.m.

APPROVED:

  
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CHAIRMAN

ATTEST:

  
\_\_\_\_\_  
SECRETARY-TREASURER

These minutes were formally approved by the Utilities Commission at their  
April 17, 2006 meeting.