

AGENDA ITEM 2-a

MINUTES OF A REGULAR MEETING OF THE UTILITIES COMMISSION, CITY OF NEW SMYRNA BEACH, FLORIDA, HELD MONDAY, MAY 18, 2009, AT 6:00 P.M., AT 200 CANAL STREET, NEW SMYRNA BEACH, FLORIDA

Prior to opening the regular meeting, Chairman Allen proceeded with an invocation and requested Commissioner Diesen to lead in the Pledge of Allegiance immediately following. He then requested for a roll call to be taken and all of the Commissioners were in attendance as follows:

Commissioner Oscar Zeller
Chairman Walter Allen III
Commissioner Jeanne K. Diesen
Commissioner William E. Hall
Commissioner William H. Reynolds

Others in attendance were as follows: R. Rodi, General Manager/ CEO; L. Klinkenberg, Director of Finance; T. Beyrle, Director of System Ops. & Gen.; J. White, Director of Engineering; R. Lemoine, Director of I.T.; P. Di Chiara, Director of H.R.; D. Hoover, Director of Water/Water Reclamation; M. Lynch, Materials Manager; B. Bilinski, Controller/Budget Supervisor; E. Fisher, Public Information Manager; D. Wood, Customer Service Manager; D. Zorge, Customer Service Supervisor; D. Simmons, Executive Offices Adm. Mgr./Recording Secretary; B. Preston, Interim U.C. Legal Counsel; Richard T. Wagner, Southeastern Investment Securities - UC Financial Advisor; Peter Dame, Akermann, Senterfitt & Edison, P.A. - UC Bond Counsel; NSB Vice-Mayor Jack Grasty; Bernadette Britz-Parker, CPA, James Moore & Co.; Robert W. Coleman, FPL Regional Director of External Affairs; Steve Provost, Robert Tolley, and an unidentified man, members of the public.

(1) Agenda Changes, Additions and Deletions:

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

Mr. Rodi stated no, but added I do have a couple of comments that I would like to make during Possible Other Business - Time for Commissioners.

Chairman Allen stated okay.

(2) Approval of Consent Items:

Chairman Allen then stated as we move on to the approval of the consent items, are there any items that we have concern about, that we want to discuss.

Commissioner Diesen stated I would like to pull consent item 2-b.

Chairman Allen stated okay, we'll bring that item down to the very bottom end of 2., after the consent items that we vote on.

Chairman Allen asked if there were any other consent items someone would like to discuss.

Commissioner Diesen stated consent item 2-f.

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

Commissioner Diesen then stated no, I'm sorry, not consent item 2-f, consent item 2-g.

Chairman Allen stated consent item 2-g, okay, we'll bring that down underneath Old Business.

After confirming the other Commissioners had no other consent items they would like to pull from the consent agenda to discuss, Chairman Allen stated he would like to pull consent item 2-h, for clarification, and added we'll also bring that down under Old Business.

Chairman Allen then asked if there was a motion to approve the remaining consent items, with the exceptions of consent items 2-b, 2-g, and 2-h.

Commissioner Diesen made a motion to approve the consent items with the exception of consent item 2-b, item 2-g, and item 2-h. The consent items approved were item 2-a. Minutes of Regular UC Meeting Held 4-20-09, approved as submitted; item 2-b. RFP 07-09 Annual Audit Services, removed from consent agenda for discussion at the end of this agenda item 2.; item 2-c. Revisions to Email and Internet Code of Conduct and addition of Password Security Guidelines, approved ratification of the minor revisions to section 5.6 and 5.7, and the newly added section 5.8, of the Personnel Practices Manual /Human Resources Guidelines; item 2-d. Low Pressure Transmission Main and Smith Street Improvements Engineering Services – Amendment No. 2, a motion to approve the Task Authorization Amendment No. 2, Agreement for Engineering Services associated with the Smith Street Pumping Station Improvements, Glencoe Transfer Pumping Station Improvements, and the Low Pressure Transmission Main Project in the amount of \$24,203, and authorized the General Manager/CEO to execute on behalf of the Utilities Commission; item 2-e. Fluoridation System Upgrade-State of Florida Grant – Administered by Florida Department of Health, a motion to approve and authorize acceptance of the grant funding for Fluoridation System equipment at the Water Treatment Plant, and to authorize the UC Chairman to execute any and all necessary documents to accomplish same; item 2-f. Developers Agreement and Addendum and Memorandum of Understanding (MOU) (Re-Build of Existing Restaurant) – McDonald's Corporation and Susan H. Martin, a motion to approve the agreement and addendum and Memorandum of Understanding (MOU) and to authorize the General Manager/CEO to execute these documents; item 2-g. Request from FP&L for Addition of Distribution Substation to be located in UCNSB Service Territory (Previously Approved Transmission Sub. on 4-21-08) removed from consent agenda and placed for consideration under Old Business; and item 2-h. Memorandum of Understanding (MOU) for Proposed Alternative Energy Project – Horizon Energy Group, removed from consent agenda and placed for consideration under Old Business. Commissioner Hall seconded this motion and it passed unanimously on a roll call vote.

Consent Item (2-b) RFP 07-09 Annual Audit Services:

Chairman Allen stated at this time, from the consent agenda, item 2-b, the RFP 07-09 Annual Audit Services.

Commissioner Diesen stated I'd like to know how many people responded to the RFP, and what the process was, and how you came to the determination.

Consent Item (2-b) RFP 07-09 Annual Audit Services (cont.):

Ms. Klinkenberg addressed the Commission and stated we have representatives from James Moore & Company here that would like to speak too, after I explain those items. She stated we put out the RFP, and I believe it was 12 companies downloaded the documentation, and three responded. We had a committee meeting, Robert Lemoine, Director of I.T., myself as Director of Finance, and Brian Bilinski, the Controller. We all reviewed the documentation independently and rated them independently. It was rated on technical knowledge and understanding of the Commission, weighted 30 points, the company profile was weighted 20 points, organization, qualifications and experience were rated at 30 points, and the price and cost proposal was rated at 20 points.

Commissioner Diesen requested Ms. Klinkenberg to repeat the last item.

Ms. Klinkenberg stated the cost proposal was rated at 20 points.

Ms. Klinkenberg stated and then after we all rated them independently, we sat down together, compiled our information, together with the Materials Manager facilitating the meeting. She added we didn't discuss, we just put everything together. We did question each other, why somebody was lower than others, and talked about that with the Materials Manager facilitating. Then the Materials Manager compiled the bid tab, and who came on the top was Brent Millikan. She added it was really because of their experience.

Commissioner Diesen stated okay, I have no problem with your decision, I just wanted to have the process, have the public informed of the process, thank you very much.

Ms. Klinkenberg stated no problem, and added James Moore would like to speak, if that's okay.

Chairman Allen stated yes, that would be fine.

A woman addressed the Commission and stated I'm Bernadette Britz-Parker and I'm an audit partner with James Moore & Company. We were one of the firms that proposed on the audit for the Utilities Commission. I wanted to thank you very much for the opportunity to speak to you this evening, and I want to thank you very much for the opportunity to propose on the job. Staff was extremely professional. They were very helpful in every way possible in addressing our questions, and anything at all having to do with the RFP. Staff did rank Brent Millikan and Company first and I do feel that they are a fine firm. Having practiced in Volusia County personally for almost 30 years, and jokingly added considering that I graduated from college when I was 12, I know that they are a good firm, and they're quality competition. But 34 years with the same auditor by any standards is a very long time, and there were only 12 points difference between Brent Millikan and Company and James Moore and Company. We had 200 points, let's see here, we were awarded 236 points, and Brent Millikan and Company was rated 248 total points, so it's less than a 5 % difference, only 12 points. One of the people on your committee, because I did obtain copies of all the ranking sheets, did rank us above Brent Millikan and Company, and we are also approximately \$22,000 dollars cheaper. She stated now in 2007 there was an Audit Selection Task Force that was established by various people within the State of Florida and there were quite a few prestigious people on the committee, people from the FICPA, people from the Florida League of Cities, people from the Florida League of Counties, and people from the Florida Government Finance Officers Association. And they suggest, they do not require, but they suggest certain parameters for establishing an audit selection committee. One of the things that they do state is that all members of

Consent Item (2-b) RFP 07-09 Annual Audit Services (cont.):

the audit committee should be members of the governing body, to insure the committee's independence and effectiveness, no governing body member who exercises managerial responsibilities that fall within the scope of the audit, should serve as a member of the audit committee. She stated so, I do think that your staff did the best job that they could, I am not finding any issues with their professionalism or their talents in anyway. I'm just suggesting that ideally, your finance personnel, the people whose work is going to be audited, are not ideally the people that should be selecting the auditors. To me it's kind of like the fox guarding the hen house, and that doesn't mean that this fox might be full, this fox might be a vegetarian. I'm not saying any wrong doing has been done, but it's such an important decision. What I would ask you this evening is if you would consider having the two top rank firms do a presentation before you, so that you can make your own decision. She concluded by saying and that's all I have to say, and I thank you very much for the opportunity to speak.

Chairman Allen thanked Mrs. Britz-Parker, and asked if there were any questions or comments.

Commissioner Reynolds stated yes, I would like to recommend holding off on the award until we have a chance to review this again.

Chairman Allen asked if there were any other comments.

Commissioner Diesen stated I would like to see the Commission uphold the decision, but that's whatever the Commission...

Commissioner Hall interjected and asked Commissioner Reynolds, is that a recommendation.

Chairman Allen stated or a motion.

Commissioner Reynolds stated that's a motion.

Chairman Allen then asked do we have a second to that motion.

Commissioner Zeller stated I'm going to second.

Chairman Allen then asked if there was any further discussion.

Commissioner Hall stated who seconded the motion, Commissioner Zeller?

Chairman Allen stated yes, Commissioner Zeller.

Commissioner Hall stated I have a question of our attorney. Brent Millikan and Company does my income tax, they have for a number of years, plus other business. Do I need to recuse myself from the vote?

Mr. Preston answered no, you don't.

Commissioner Hall stated okay.

Consent Item (2-b) RFP 07-09 Annual Audit Services (cont.):

Chairman Allen then asked if there was any further discussion on the motion that's on the floor.

Commissioner Reynolds stated I would like to make a little discussion. I have complete faith in Brent Millikan, they've done a great job when we were in deep trouble. I'm somewhat concerned about the fact that the evaluators are so closely connected to the day-to-day activities of finances, that I would just like to review this, I would like to see the sheets myself, I would like to see if we need a secondary to look at this from outside sources to see what it looks like.

Commissioner Hall asked if he could respond.

Chairman Allen stated yes.

Commissioner Hall stated I think we have to put our faith in Mr. Rodi, and our finance people. If they were doing something that looks, what's the word I want, a little strange, that's incriminating frankly, and I just don't believe its happening. And so I'm not going to support the movement to put this off, I trust Mr. Rodi impeccably, and I trust Ms. Klinkenberg impeccably, and her staff, and I'm ready to move on. He added and I've worked with the Moore Company in another life, and I've also worked with Brent Millikan as I said in my personal life, but also in the other life, and both are outstanding companies.

Commissioner Reynolds stated I agree.

Chairman Allen then asked are we ready for the question.

Commissioner Hall stated I call the question.

Chairman Allen then requested for a roll call vote to be taken on Commissioner Reynolds' previous motion (to hold off on the award until the Commission has a chance to review again).

Commissioner Reynolds' motion did not pass as a majority of the Commissioners voted no. Commissioners Reynolds and Zeller voted yes, Chairman Allen and Commissioners Diesen and Hall voted no.

Chairman Allen then stated motion fails. We come back to the original motion, a motion to approve and award the three year Annual Audit Services Contract to Brent Millikan and Company.

Commissioner Diesen made a motion to approve and award a three year Annual Audit Services Contract to Brent Millikan & Company for the following amounts: Fiscal Year 2009 in the amount of \$53,000, Fiscal Year 2010 in the amount of \$54,560 and Fiscal Year 2011 in the amount of \$56,280. Commissioner Hall seconded the motion.

Chairman Allen confirmed there was no further discussion on this motion and asked for a roll call vote to be taken. Commissioner Diesen's motion then passed with a majority of the Commissioners voting yes. Chairman Allen, and Commissioners Diesen and Hall voted yes, Commissioners Reynolds and Zeller vote no.

(3) Public Participation:

Chairman Allen stated okay, as we move on to other business, we'll move to item 3-a. Public Participation.

Mr. Rodi and Commissioner Diesen both indicated to Chairman Allen there were two other consent items remaining.

Commissioner Diesen stated consent items 2-g and 2-h.

Chairman Allen stated consent items 2-g and 2-h, we've moved them down under Old Business.

Commissioner Reynolds confirmed that was correct, as well as Mr. Rodi and Commissioner Diesen.

Chairman Allen then stated so we can move down to public participation and opened the floor for public participation.

Mr. Bob Tolley, 803 Fairway Drive, addressed the Commission and asked if comments could be saved until later on when the other items are discussed.

Chairman Allen stated okay.

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

(4) R. Rodi - General Manager's Report:

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

(4-a) Financial Status April 2009:

Ms. Klinkenberg addressed the Commission and commented I have a feeling I'm going to be up here a lot tonight. For the financial status, we continue to carefully monitor and reduce our expenditures, and our revenues are significantly lower than budgeted, and that's not typical for this time of year. Currently our revenues are \$3.8 million below budget for the combined systems. We are taking small steps in decreasing the under recovery of fuel and purchased power costs. As of April 30, the under recovered balance is just over \$3.1 million. And for the past three months we've been recovering approximately \$300,000 a month. We also took a very detailed look at the kilowatt hours, there's a very large difference from 2008 in April and 2009 in April, and it's about 2.5 million kilowatt hours less, used this year. So we were curious what that was attributed to, we're always looking to see if it's our system or if there really is something going on out there. And what we actually found was that \$1.1 million are attributable to the commercial customers. We've lost 260 commercial accounts in one year's time and that comes out to about 4,500 kilowatt hours per business, which is about right for a small business. And then we looked at the residential side and there's \$1.3 million less kilowatt hours used, we have 200 less customers and if used those are about 1,000 kilowatt hours each, and then maybe each household conserving 50 kW hours, it all worked out. So I would say its conservation efforts and business is really taking a toll on the kilowatt hours that we're billing.

Commissioner Diesen then asked are you comfortable with those numbers given ...

(4-a) Financial Status April 2009 (cont.):

Ms. Klinkenberg answered the consumption does appear to be correct, yes. We have checked and rechecked reads, we have checked and rechecked reports, from multiple different areas and the kilowatt hours do appear to be reflected correctly.

Commissioner Diesen stated 260 of businesses is a lot.

Ms. Klinkenberg stated now our customer counts, I'm not a 100% sure they are accurate; enQuesta does not count customers the way we count customers. The way the Utilities Commission generally counts a customer is per location and that makes up one bill.

Commissioner Diesen stated right.

Ms. Klinkenberg stated enQuesta doesn't count it that way, so if there happens to be, say Publix, and I don't know this for sure, but say Publix has two or three electric meters in the back, that's three customers, in enQuesta.

Commissioner Diesen stated so when we get back to Cogsdale are we going to be cleaner.

Ms. Klinkenberg stated oh yes, and added we can't wait for that day.

Commissioner Diesen we'll compare, and added can't get there soon enough.

Commissioner Hall stated but we should not assume that we've lost 260 businesses in this town.

Commissioner Diesen I don't think we have 260 businesses.

Ms. Klinkenberg stated we do know a lot have been closing, but I don't know how many.

Commissioner Hall stated I know that but...

Commissioner Reynolds stated what you're saying is that some may have multiple meters. Therefore, if you had to draw a chart, would you see, is the number still going down or is there some leveling out in that.

Ms. Klinkenberg stated I haven't done that so, I couldn't say.

Commissioner Diesen stated it would be interesting just to check with the Chamber of Commerce to see if they've lost, you know, a proportionate amount of memberships. I mean not everybody would be a member, they couldn't afford it if they're going out of business for starters. But you might know, I mean they might have some numbers too because that seems like, that has to be multiple meters at a number of locations, rather than...

Ms. Klinkenberg interjected and it could be.

Commissioner Reynolds commented well if you count the vacant stores on Canal Street and on U.S. 1, there's a bunch.

(4-a) Financial Status April 2009 (cont.):

Commissioner Diesen stated but I don't think there's 260 all total are there.

Commissioner Hall stated I don't either, I haven't counted that high.

Commissioner Reynolds stated I don't know but it looks like maybe we could go and count them. He stated I think that to have some feel of whether that trend continues, you know, at the rate it's going will tell us more than if we counted them.

Ms. Klinkenberg stated I'll do a trend analysis on it and I'll bring it to you at the next meeting.

Commissioner Hall commented well, that has serious implications for the City Commission also, when you think about it.

Chairman Allen confirmed there were no further questions on the financials.

(4-b) Status Update – Refinancing of the U.C.'s FMPA Pooled Loan Program Loans:

Ms. Klinkenberg stated as we mentioned a couple of months ago, we had received notification from FMPA that their line of credit that they have with Wachovia was not going to be renewed. Last week, I believe it was Tuesday, we were informed by their Financial Advisor (FMPA's) that they were going out for an RFP and they could bring the pooled loan participants with them but they would be separated out, it wouldn't be the same loan. I've talked with the U.C.'s Financial Advisor and U.C. Bond Counsel about this at length. We all agreed that we felt we could get a better interest rate if we went out on our own, and with the economics stimulus plan that increased the bank qualified loan from \$10 million to \$30 million for 2009 and 2010, we felt that would be the way to go. And looking at the interest rates as they are, we wanted to also roll in the 1993 Certificates, we have two principal payments left out there in 2018 and 2019, that total \$2.5 million and they're at 5% interest. And we'd like to roll those into the refinancing of the FMPA debt, and possibly if we need additional funds to finish the water projects, but the bids are actually coming in low, then we would roll that in. We're looking at around \$20.1 million plus closing costs for refinancing and we would not extend the length of time for the payback, we would mirror the same payback schedule that we have currently. She confirmed that pays off in 2020. So we wanted to talk to you about that and if you have any questions, Richard Wagner, our Financial Advisor and Peter Dame, our Bond Counsel, are here.

Commissioner Reynolds asked what's the interest you see coming up on that, the note.

Mr. Richard (Toby) Wagner addressed the Commission and stated he was with the firm South-eastern Investments Securities out of Winter Park, Financial Advisor to the Commission. He asked Commissioner Reynolds if he was speaking about the current interest rate on the note or what would the projected rate be.

Commissioner Reynolds answered the future rate.

Mr. Wagner stated, as Ms. Klinkenberg's suggesting, we're talking about going out for a bank loan, going out to the banks competitively and there's only 12 years left. I would say that we would

(4-b) Status Update – Refinancing of the U.C.’s FMPA Pooled Loan Program Loans (cont.):

probably be somewhere around 3.75%, maybe a little bit lower than that, as rates are very competitive in today’s market.

Commissioner Reynolds asked what are the closing costs on that?

Mr. Wagner stated the closing costs are probably, I don’t think they’re going to be any more than about \$60,000, something like that. If we were to go out to the bond market it would be probably 2% or something like that, it would be a couple of \$100,000, probably more. So really in today’s market, as Ms. Klinkenberg said, we got some relief from the stimulus bill. Ordinarily in the past years, you could only borrow up to \$10 million on a bank loan in any one calendar year. For the next two years, 2009 and 2010, they increased that to \$30 million by any one insurer. He stated also your debt has to be aggregated with the City’s debt, so if the City’s is going to issue any debt we need to know that; that’s why we need to go the City, advise them of this, and get their consent. I’ve talked to their Financial Advisor, he doesn’t see that they’re going to need any more debt this year. So I think we’ve got a window where we can get this completed and leave room for them next year where you probably won’t be back into the market next year. So I think the timing is good from that standpoint in terms of sharing resources with the City.

Commissioner Diesen stated and are we looking at adding anything, are we seriously thinking about that on the water projects or this is just old, I know what the makeup is.

Mr. Rodi stated to repeat what Ms. Klinkenberg said, we’re receiving now the bids for the 20” water pipe installation. And assuming that those bids are lower than our original engineering estimates, we may not need to go after the other \$2 million. It was like \$2.75 million I think that was outstanding on the original amount that we had forecast. So that’s a part of what we’re assessing right now, we’re trying to replace like for like, and the only other thing outstanding is whether we have to go for the remaining water amount, and we haven’t decided that yet. There are some favorable indications, but we haven’t analyzed.

Commissioner Diesen stated I just didn’t want anybody to think that this is new debt, this has been hanging there.

Mr. Rodi interjected this is old debt.

Chairman Allen stated for clarification, the other aspect of going out, redoing and refinancing this debt is it should help us as far as our financial standing to separate us from FMPA, is that not correct.

Mr. Wagner stated that’s correct, yes sir.

Chairman Allen stated and the sooner we act and get in line to process that, the sooner the better, is that not correct.

Mr. Rodi answered that’s correct.

Mr. Wagner stated these are the only three loans you have with FMPA.

(4-b) Status Update – Refinancing of the U.C.’s FMPA Pooled Loan Program Loans (cont.):

Chairman Allen then asked if there were any other questions.

Mr. Rodi stated just looking forward at the next meeting I anticipate that we’ll be able to have a package together because I think we need to move quickly with this.

Mr. Wagner stated right, that’s a good question Mr. Rodi. The sequence of events is we would go out to the banks, receive bids back prior to your meeting in June and then we would have an action for you in June which would authorize the borrowing as well as award the loan to the successful bidder. I would think that, and added to Peter Dame he may want to speak to this, but in the interim, possibly Peter Dame and Mr. Preston and Mr. Rodi would go to the City and advise them of what we’re doing in terms of the borrowing and get their consent. I think they have an ordinance action, he stated to Mr. Dame, that they have to take.

Mr. Rodi interjected two public hearings required.

Mr. Wagner stated so the action that you would take probably in June would be subject to the City approving it, they may be in the middle of those public hearings or they may just be starting them.

Mr. Rodi stated it will very much parallel what we did for the \$10 million loan for the three water projects, it will follow the same type of process.

Mr. Wagner concurred.

Chairman Allen stated okay, I think that’s fairly clear.

(4-c) Status Update – Cogsdale Conversion:

Mr. Lemoine stated it’s a good feeling to be able to come here and say things are going in a positive direction after all of the problems we’ve had with the previous software, of which I don’t have to get into as you all know. We have effectively received the new software, installed it on servers and created a test environment with no major problems to date. Once we start testing the process of how Cogsdale will interface with our Great Plains software, then we will know for certain that they work well together which is every indication right now. The critical point will be when we take the data out of the database the data resides in, that is associated with the enQuesta software, to move that over, not in its entirety but in the essential fields necessary to be able to populate the database for Cogsdale. We anticipate no problems, we’re feeling good about the process. Staff is extremely excited about moving forward and Ms. Klinkenberg, and I as well, are very excited about the process. We both today gave Mr. Rodi an update and onward and upward. He then asked if there were any questions.

Commissioner Reynolds stated I had a business partner Phil Johnson and we would do some pretty complicated work in the aerospace business and we would finish a project and he would always say what could go wrong. So let me ask you this question, if you had to look at it from the standpoint of worse case, what do you see as the critical points in this transfer over once you go through your testing.

(4-c) Status Update – Cogsdale Conversion (cont.):

Mr. Lemoine stated the date we're focusing on is July 31 to be fully operational under the new software. If I was to say there would be any kind of a problem, it would be that we would have to put that off for an extra month or two, if we had a major problem, which we do not anticipate.

Mr. Rodi stated if I may, I think there's another part I heard, a little different question. Part of the critical transition always is the data loading and that's what we're testing now is how accurate and how well do we understand the data that's in the current system. Even though we're going back to a former software, it's changed very dramatically because of what's happened in the intervening years. Part of what we're doing is making two hops, on the general accounting side we're going from 9.0 to 10.0 and we have to do it in that fashion. So we're loading up one system and then loading a second system, so that's part of this transition and if things go correctly without testing, and the reports that we're going to see by the end of this week, then we should have the accounting part of this finished.

Mr. Rodi stated the same type of thing is going to happen on the customer side, we're going to go through 9.0 and then move over to 10.0. And each one of those steps, the most critical of which is the first, when we're taking the S&S data, so you know if that doesn't go correctly, then we're going to have to crawl into all that data which may be very difficult. As I'm understanding the initial information, we're extracting the data and understanding it correctly, so those initial steps are positive, and when we get the reports, that will be another milestone. So if I've gotten that out okay, I think that was the other part. He added and if we fall into a dark hole, we'll be back, but added we don't see that right now.

Mr. Lemoine stated thank you.

Chairman Allen confirmed in essence, you're feeling pretty good about it, on that move; so okay, thank you.

(5) Commission Counsel's Report:

Chairman Allen asked if there was any report.

Mr. Preston stated I have no particular report, most of the items that I would have reported on are on the agenda with the MOU's and the Railway, which I'm sure will come as well. So if there are questions then, I'll answer them.

(6) Old Business:

Chairman Allen stated as we move on to Old Business, the first item under old business is Consideration of the U.C.'s Budget for Fiscal Year 2010.

Mr. Rodi stated may I ask in deference to Mr. Coleman, because I see him sitting here, would we be able to take the two items (pulled from the consent agenda) before we get into the budget, is that okay.

Consent Item (2-g.) Request from FP&L for Addition of Distribution Substation to be Located in UCNSB Service Territory (Previously Approved Transmission Sub. On 4-21-08):

Chairman Allen confirmed that was fine, and then moved the two pulled consent items up. Let's go ahead and address the request from the consent item 2-g, Request from FP&L for Addition of Distribution Substation to be Located in UCNSB Service Territory. As we address that, he asked if anybody wanted to speak as he is prepared to say a couple things.

Commissioner Diesen stated to Chairman Allen, go ahead.

Chairman Allen stated one of the concerns I had, having looked at this as Mr. Coleman was with us last month, and the comment that came from him was that this was a distribution station that was for a meeting of the load of the ICI project to the north of us, and that was my understanding. But the latest information that I received on this particular distribution station, that Mr. Coleman had sent to the Commission, kind of to me it defines this distribution station as having three 55 MVA transformers, which basically tells me that it's a 160 MW load center, and the correspondence of that design for the station showed that it had nine 23 kV distribution feeders. And as I looked at this information, there appears to be a conflict from the design with FP&L's voltage level that was stated at the last meeting. At the last meeting Mr. Coleman stated that FP&L's voltage that was feeding their customers was 13 kV, and we're building and designing a distribution substation at 23 kV, so is the voltage level changing.

Mr. Robert Coleman addressed the Commission and stated Bob Coleman, FPL, 425 North Williamson Boulevard in Daytona Beach. First the question that was asked from Mrs. Simmons was ultimate, and that was the information provided, the ultimate, physical, whatever you can cram in there is three transformers and nine feeders. Whether or not it will make to there is certainly open to conjecture. Voltage is 13 kV phase to ground, and 23 kV phase to phase, so I'm not sure if you all refer to that as 13 kV or 23 kV. It's between two of the wires is 23 kV, 22 point actually, and 13 kV between one of the wires and ground. And we'd always have one spare transformer, so with the three power transformers the ultimate load would be fully loaded, two 55 MVA's, again whether or not, that's the ultimate design, whether or not we'll ever be there is anyone's guess.

Mr. Rodi stated if I may comment on this, the UC system will not interconnect at the distribution level with FP&L's distribution system. And the southern part of the UC territory, and Mr. Coleman is very familiar with this, was acquired from FP&L and that was 13.2 kV phase to phase. And it's my understanding that all the surrounding area, in Edgewater, in Port Orange, is all 13.2 kV phase to phase. The UC voltage is 23 kV phase to phase, and so my purpose in asking that question is just clearly to show that the two voltages are different. That's all I'm trying to establish, that we can not, for example, carry any of FP&L's distribution customers under an emergency, nor can they carry ours under the existing configurations.

Mr. Coleman stated Mr. Rodi is correct, we have slowly started to convert from 13 kV, originally it was 4 kV, then 7.620 kV and 13 kV, and then the newer stuff is 23 kV. So this station will go in at 23 kV whereas some other circuits out of Port Orange, the station is 13 kV, and out in the field we'll put transformers to convert it up to our 23 kV, so it would become a 23 kV feeder. But Mr. Rodi is correct, these systems are not at the distribution level inter-connectable.

Mr. Rodi thanked Mr. Coleman.

Consent Item (2-g.) Request from FP&L for Addition of Distribution Substation to be Located in UCNSB Service Territory (Previously Approved Transmission Sub. On 4-21-08) (cont.):

Chairman Allen stated one of my concerns was, is just seeing the size of this station as being built out is basically, that the lay out of the station building is more of a regional load center rather than just feeding specifically to the north. There's nothing to say that once this station gets in place that you're not going to have two feeders running north and two feeders running west, and maybe even up to four feeders running south to feed Restoration; that runs through our system. There's nothing that guarantees us that's not going to happen. And I know within this community, a few years back, there was a big outcry about all the conductors being overhead, and there was a cry that everything needed to go underground. And you know when we look at our community, westward, basically out in the I-95 Corridor, if you looked overhead down in New Smyrna Beach, that is basically the center of our community. Looking down the road 10 to 20 years from now, and as build out happens out there, and we look and think about congestion of power lines and things that are in the air, I believe somewhere along the line, as we approve this, that there's going to be some outcry in reference to what they see and the environment as far as eye sight, and that is some of my concerns.

Mr. Coleman stated if I might address that, physically it's not good practice to put more than two feeders on a pole. We would be on the north side of the road, the UC would be on the south side. So initially we would come out underground, under the Pioneer Trail and rise overhead. Feeders after that, we would come out with a concrete encased duct bank that run west on Pioneer Trail until we find a place we can turn and go north. That's fairly common practice, a lot of our other substations we have multiple feeders out, because you don't want more than two feeders at the most on a pole line, in case a car hits it, you don't want to take out three feeders. I think that's fairly standard practice within the industry. So there would not be nine circuits stacked like you used to see telephone poles back in the 20's stacked up there. We would come out underground and run underground, called an express feeder, until we got pass the point that we could turn and go to the north.

Commissioner Reynolds asked if he could follow up on that.

Chairman Allen stated yes.

Commissioner Reynolds stated you know that is a concern when you think of the growth, particularly when you have to service south toward Edgewater. The other thing that really disturbs me after all these years how we continue to fail on the integration, so that we have flexibility, in systems. And it happens all the time and I can not understand why we somehow can't work something where we can connect with you and vice versa. That just seems to me, a new system going in, why that can't be done when you think about how this place will look 50 years from now just astounds me.

Mr. Coleman stated well, I think it's a policy decision more than anything else. On the west coast of Florida, Glades Electric Cooperative, we do interconnect at the distribution voltage. The voltage is slightly different than ours and we put in what's called a field regulator, that will then adjust their voltage to ours, or ours to theirs, vice versa. I think it's probably more of a policy issue because once we're interconnected, then if we have a fault on our side of the system, how do you see that fault, is there danger to your personnel or equipment. Conversely, if you have fault, a fault being a wire down or something, on your side of the system, does that reflect on ours. So there are some engineering issues, but I think probably more of a policy issue that we prefer to keep our

Consent Item (2-g.) Request from FP&L for Addition of Distribution Substation to be Located in UCNSB Service Territory (Previously Approved Transmission Sub. On 4-21-08) (cont.):

interconnection with you all at the transmission, 115 kV level. I am sure probably, Mr. Rodi could address to the interconnect issues, or Mr. Beyrle.

Chairman Allen asked if there were any other questions, or comments.

Chairman Allen stated there being none, as we address this motion, it's looking like we're looking for a recommendation to approve this due to contractual requirements. We need a motion to approve and permit Florida Power and Light to locate a distribution substation, associated circuits and equipment, with station power only for and by FP&L for its substation in the Utilities Commission Service Territory, contingent upon Florida Power and Light's Agreement to making the Utilities Commission whole for impacts from construction and/or operations of said distribution substation, and return of service associated with meter number 5C89373 for provision of service by the Utilities Commission and authorization for the General Manager/CEO to execute any and all documents required for the accomplishment of same. Do we have a motion?

Commissioner Reynolds stated I have a question. What is the physical, can you describe in feet or meters, what is the footprint.

Mr. Coleman stated I think we provided a plot layout of the substation, both transmission and distribution. It would look very similar to one of your distribution stations, the transmission station is going to be larger physically, because the pipe rack is an air insulated station, so it would be larger in transmission, but the distribution should look very similar to one of your newer distribution stations.

Mr. Rodi stated the acreage for this entire station is I think 25 acres, so it's you know, and that's the point Mr. Coleman I think is making, you have a transmission part of the station that is really separate from the distribution, and it requires more spacing because of the voltage. And then the distribution size is smaller, and you'll see them adjoined pretty much back to back, but it's a good size station.

Commissioner Diesen stated didn't we say that was not in best practice to do that.

Mr. Rodi stated well there are a number of combined transmission and distribution stations, they're driven by any number of reasons at the time that you select a site, and for the load that you see around that station. So it's very, very complicated and generally engineers would choose not to do it that way, because of the fault currents that occur on the transmission side affecting the distribution, but it can be managed and it's not common, but it's not unusual either.

Commissioner Diesen stated I've been troubled by this and I was not going to say anything, but I've been troubled by this from the time you presented last month. I didn't believe you really thought that was just an oversight. And I was curious as to why you decided to rattle the ICI saber and the PSC, you mentioned both of them. That ICI didn't want it on their property and that this had to happen, otherwise there was always the PSC route. That just didn't sit well with me, I'm looking for a hidden agenda here. What is it that makes this so attractive, and why is this the spot and what's down the road; there's something, there's a piece missing.

Consent Item (2-g.) Request from FP&L for Addition of Distribution Substation to be Located in UCNSB Service Territory (Previously Approved Transmission Sub. On 4-21-08) (cont.):

Mr. Coleman stated I can assure you that there's no hidden agenda. First, because distribution substations are not subject to zoning, by state law, from about two years ago, transmission switching stations are. So, naturally as an organization when we gear up for a site, we internally are focused on the transmission switching because that has to go before a zoning board, a distribution substation has to meet all the landscaping requirements of the local jurisdiction but does not require a public hearing. So far as that, that's probably why we did not emphasize or even specify that yes, there was a distribution substation there. No hidden agenda there, whatsoever. As far as why the site, we own the site, that's the number one criteria. We found a willing seller of the property.

Commissioner Diesen stated I'm stuck with it, with the answer, okay.

Commissioner Hall stated our agenda packet says for this item that we must approve this, right, so what choice do we have.

Commissioner Diesen interjected that was my point.

Mr. Rodi stated the agreement between the parties determining the service territories is written such that I think that if you read it, it would include a distribution component.

Commissioner Diesen stated but it's a reciprocal agreement right.

Mr. Rodi stated yes, but added you understand that doesn't mean a lot to municipals.

Commissioner Diesen stated right, I just don't want anybody to think that we are just hayseeds and don't understand what's going on; anyway, okay.

Chairman Allen stated the only problem I have, the real problem I have is a lot of times it's hard for me to swallow the arrogance of building a station of this size and magnitude in our community, which has a negative impact on our community, to serve surrounding communities. That's the thing that kind of eats at me is that it's going to impact New Smyrna Beach in a negative way. And it's going to be a footprint, that footprint is probably somewhat similar in size to, I would say, Volusia Sub., that's my guess.

Mr. Rodi stated pretty close.

Mr., Coleman stated it's, depending on, Volusia's an old sub, but the construction would be similar to it. Bear in mind that we are locating it next to a transmission corridor to try to minimize the visual impact, and we will be paying taxes. I realize that goes to the city, not necessary the U.C.

Chairman Allen stated okay, we've got a motion, do we have a motion to approve it, present this motion.

Commissioner Hall stated so moved, due to contractual requirements a motion to approve and permit FP&L to locate a distribution substation and associated circuits and equipment with station power only for and by FP&L for its substation in the U.C.'s service territory, contingent upon FP&L's agreement to making the U.C. whole for impacts from construction and/or operation of said

Consent Item (2-g.) Request from FP&L for Addition of Distribution Substation to be Located in UCNSB Service Territory (Previously Approved Transmission Sub. On 4-21-08) (cont.):

distribution substation, return of the services associated with meter no. 5C89373, for provision of service by the U.C., and authorization for the GM/CEO to execute any and all documents required to accomplish same.

Chairman Allen then asked do we have a second.

Mr. Preston stated may I ask one question before the vote. We have a contingency in this motion, and the last contact that I had was with the attorney with FP&L, Mr. Ryan, in mentioning this contingency to him and I believe that was toward the end of last week. He stated to Mr. Coleman and I don't know if you have authority, or if there's has been any resolution Mr. Rodi, in regards to the contingency or direction there, but we are passing a resolution with the contingency in it, in regards to a particular meter. There is a potable water meter (sic electric meter) that is on the south side of Pioneer Trail that is being serviced.

Mr. Rodi stated it's the interconnection, the automated potable water interconnection between Port Orange and the UC. And it's located on the southeast corner of Airport and Pioneer, so it's within the service territory.

Mr. Coleman stated yes, we accept that contingency and I was talking to Mr. Beyrle about it. Evidently the transformer is located in our area, and I guess the meter is located in the UC's area.

Mr. Rodi stated the meters, to Mr. Coleman, what they did was they hung a can on the pole, underground feed to the meter, and then came across under Pioneer.

Mr. Coleman stated it's a \$14 dollar a month account, we'd be glad to give it up.

Mr. Rodi stated I wanted to comment on something that's critical on the other side of this. For purposes of FP&L's station, I totally support station power being supplied by FP&L. Realistically they can't have a situation where we're providing a distribution service that's so critical for that station, so therefore it's something that is, I think the right thing to do in this case.

Commissioner Reynolds stated I think my hesitation is not against FP&L, I'm just sort of visualizing Williamson Road coming down through there, and a commercial development, and what this will look like, and we can talk about in here but until that thing is built we'll never know the impact of it. And I guess that's my hesitant, I mean I don't hesitate in you having that, don't get me wrong, it's just the fact that I wish we could put it underground.

Commissioner Diesen stated well, I think it was interesting that ICI right away, didn't want it, so, that tells us something too.

Commissioner Reynolds stated well, why should they give up their land when we can give up ours, they still have 25 acres up there that they can put homes and businesses on.

Commissioner Diesen stated right, exactly, and we can, to service them.

Commissioner Reynolds stated we lose 25 acres of renewable water sources, we lose 25 acres as far

Consent Item (2-g.) Request from FP&L for Addition of Distribution Substation to be Located in UCNSB Service Territory (Previously Approved Transmission Sub. On 4-21-08) (cont.):

as whatever expansion we need to do whatever on that property. So you know, that's an emotional tug in my heart, about the reluctance.

Chairman Allen stated we've got a motion, we need a second.

Commissioner Diesen stated alright, I'll second it. I think we're caught between a rock and a hard place, we don't have a choice.

Chairman Allen stated we have a motion and a second, and asked for a roll call vote to be taken.

Commissioner Hall's previous motion* then passed unanimously on a roll call vote. (*Due to contractual requirements a motion to approve and permit FP&L to locate a distribution substation and associated circuits and equipment with station power only for and by FP&L for its substation in the U.C.'s service territory, contingent upon FP&L's agreement to making the U.C. whole for impacts from construction and/or operation of said distribution substation, return of the services associated with meter no. 5C89373, for provision of service by the U.C., and authorization for the GM/CEO to execute any and all documents required to accomplish same.)

Chairman Allen and Commissioner Diesen commented yes, under protest.

Consent Item (2-h.) Memorandum of Understanding (MOU) for Proposed Alternative Energy Project – Horizon Energy Group:

Chairman Allen stated we'll move on to the MOU for a proposal of an alternate energy project, Horizon Energy Group.

Mr. Rodi stated before we begin this, I'd like to get Mr. Weller on the phone. He's the Director of Southeastern Projects for Horizon Energy and we have his phone number, if that's okay with everyone.

Chairman Allen stated okay and added as far as getting him on the phone I think Mr. Tolley might have had a question or two to add into this, possibly we could get these questions asked so we could address them.

Mr. Weller answered the phone call and Mr. Rodi confirmed Mr. Weller could hear.

Mr. Rodi stated he asked that question for those who are seated in the room, and added what I'd ask as we go through this, is I try to respond appropriately to the questions that are asked and if I state something incorrectly, that Mr. Weller will add his perspective to it.

Commissioner Diesen stated I have one question, I'll start it off, I don't mind. There's been a lot of scuttlebutt and behind the scenes yammering about this is going to be unsightly, smelly, whatever. This is a closed system correct, and I'd like you to explain exactly what that means.

Mr. Rodi stated okay. For those of you who can recall the presentation that Mr. Steve Pullins made, you saw a representation of a commercial building. And this is a large commercial building that

Consent Item (2-h.) Memorandum of Understanding (MOU) for Proposed Alternative Energy Project – Horizon Energy Group (cont.):

will contain within it the handling of the municipal solid wastes, the sorting, the drying operation, the gasification unit that will convert the municipal solid wastes, and this is not a burner by the way, this does not burn. It also then has a system to clean the synthetic gas and there's then a combustion turbine and the waste heat from the combustion turbine will operate a steam turbine, so it's a standard combustion turbine system. So all of this is contained within that building. Secondly, the municipal solid waste is dried through a sealed system. In other words I mentioned that the vessel, and we're talking about molten salt or molten metal technology that gasifies the municipal solid waste, is devoid of oxygen. What happens then is there's an exothermic reaction, it gives off heat, a lot of heat, and the actual molecules end up vaporizing and decomposing and recombining into different gases. Now what that means is almost any carbonaceous material could be used as a fuel. So one can use municipal solid waste, that's how you can use biomass, you can use biosolids, you can put coal in there, you can run it on Nat. gas, and even then the actual generating unit, and the steam generating units are just a standard combined cycle unit that can run on natural gas. That's the set up but the processing of drying the municipal solid waste is done in a sealed unit. In other words it is self-contained, the waste heat dries off the moisture, the moisture is collected and condensed, and the dried particles, as fuel then, are stored externally in silos. And they look very much like corn silos, wheat silos in the mid-west, we see more of them there.

Commissioner Diesen stated so there's not going to be any garbage dump outside the door that they're going to shovel in every so often.

Mr. Rodi stated no, and see frankly you have to be able to have the process move smoothly so that you can take the material, shred it, separate the metals out, the glass, whatever it is that may be recycled, and all that has to occur inside the building. He asked Mr. Weller if he was correct in what he described.

Mr. Weller stated yes, I just want to re-emphasize the concept once the MSW is actually placed into the process, that's a totally sealed container. So really the entire process of converting the MSW to the clean synthetic gas, there's no exposure to the atmosphere at all, there is none, it's a totally sealed container. You said that, I just want to re-emphasize that, I think that's key because that's one of goals in this whole concept is to have a totally pollution free process that is a renewable energy system for us, for our communities. Our goal is to have a totally win-win scenario that covers you know the environmental side, the renewable side, and of course a good source of electrical energy at a very reasonable price.

Mr. Rodi asked if there were further questions.

Commissioner Diesen stated back to my original, the process, I get that. What I want to know is if there are 20 truck loads of garbage coming in, that's not going to be held anywhere outside.

Mr. Rodi answered no.

Commissioner Diesen stated it will be done so that even on holidays, even on whatever.

Mr. Rodi stated there are a lot of practical reasons, when I was with Lakeland Electric they would burn garbage and things would sit outside, and they would burn garbage in one of the units there.

Consent Item (2-h.) Memorandum of Understanding (MOU) for Proposed Alternative Energy Project – Horizon Energy Group (cont.):

Commissioner Diesen stated an incinerator.

Mr. Rodi reiterated this is not an incinerator. What happened there is you would end up with all kinds of paper and things that get loose. And those pieces of paper in that case would end up getting into the transformer cooling system so it would plug up the radiators on the transformers, plug up the fans, and there were a lot of issues. Now understand that elsewhere there are many incinerating units already operating here in Florida; Covanta has them, Wheelabrator has them. This is again not a combustion system and by keeping the oxygen away from the process, the molecules end up vaporizing and decomposing and recombining into different gases. Just wanted to reiterate that and not have any misunderstandings about how the technology works.

Commissioner Diesen stated and the silos are where the backup material is stored.

Mr. Rodi stated yes, and for example when you have a weekend, you still have to have fuel feeding the system, so then the silos are used as the fuel source, and then they're replenished during the week.

Commissioner Reynolds stated would you, just for the record, walk us through garbage truck full, somewhere beachside, and is moving out to the destination, when it gets there would you go ahead and explain what happens when it lines up out there to dump the truck.

Mr. Rodi stated well I'll tell you what I've been told because we don't have anything real out there right now. But right now any of the trucks that are gathering garbage or even recycling, end up going to the Tomoka Landfill, that's where they go now. And landfills are probably the best answer that has occurred up to now, but landfills are environmentally very difficult to totally manage well. Some of what landfills are dealing with now is out gassing, and fortunately for Tomoka they have a small generator unit to run on the methane. What I'm told is suppose to happen, and it will take about 50 trucks a day, and that's premised upon maybe 15 tons of municipal solid waste as far as garbage goes, but understand also that any kind of bio-material like grass clippings, palm fronds, tree parts, are also a fuel. They'll go into the building, they'll back up, deposit their load, and drive out the other door; so what you have is traffic in and traffic out. Much of this traffic will probably be coming from the west because maybe 40% of the fuel source will come from New Smyrna Beach. The 60% remaining will come from other cities or the County. And again, I wanted to mention that there's 15 tons per truck and these units require about 660 tons a day. That gives you the ratio of how I came up with 50.

Mr. Rodi stated understand that this is part of a process. The first thing we did is we had Clean Earth Energy in here previously describing the technology. They lost their funding with the economic down turn. This process is very similar, molten metal, molten salts, and what we did is we had a presentation and talked about alternatives. The alternative that we are now focused upon is one plant for New Smyrna only and we'll work out the details of it. But the process itself now has a Memorandum of Understanding and the purpose of that is to secure fuel sources and financing, that this is a viable project. The project can end frankly, and those who are competitors, and they are at work out there, would want to have the MOU not become effective and then the project ends. They (competitors) then can promote their own opportunity. This is one of the

Consent Item (2-h.) Memorandum of Understanding (MOU) for Proposed Alternative Energy Project – Horizon Energy Group (cont.):

difficulties of public participation. Whether you're buying land or trying to have some type of business relationship, many people can use that as an opportunity to influence the outcomes.

Mr. Rodi stated but what we do at this point, presuming you approve this, is that we'll begin to go through other MOU processes in accordance with what we've written up here. The details of the contract will come later, you know this is a 36 MW unit, it's still a little bit large for our system, compared to we're only a 100 MW system, and so you try to size units appropriately for your system but we're not buying the unit, we're buying a purchased power agreement, and we hope to have an option to purchase this unit at some reasonable cost in the future. So in order to even get to the details of the unit, we've got to go through the preliminary steps of securing fuel, other partners, and having that understanding.

Commissioner Hall asked Mr. Rodi to refresh his memory on the presentation that Horizon made to us a month ago (January 2009), how many plants do they have in operation right now.

Mr. Rodi stated right now they have one plant that they use for demonstration in Canada and they have one commercial plant that was suppose to become operational in January or actually the month before they made the presentation to us, which was in January. And that plant did not become operational until, I think, April, and it's a commercial plant, it's not a plant that is built to half scale and demonstrates the viability of the technology. Part of what we are planning to do is to have Commissioner Zeller and Mr. Tim Beyrle actually visit the plant, we still have to "kick the tires" and look at it.

Commissioner Hall stated so they have one plant that's been in operation for three months, no excuse me a month.

Mr. Rodi stated it's been about a month and a half.

Commissioner Hall stated okay, my second question is we're talking about what, 600 tons of whatever from Tomoka Landfill.

Mr. Rodi stated I think what will happen is all of the trucks from New Smyrna would come first, depending upon what other cities participate, rather than going to Tomoka, will come here first.

Commissioner Hall stated okay, if we go to Tomoka, has any one checked into whether or not they would require bids.

Mr. Rodi stated no, there's no fixed contract even now for vehicles to discard at Tomoka, it's on a straight per ton basis.

Commissioner Hall stated I guess my question is would the County of Volusia want a piece of the action.

Mr. Rodi stated well, they're talking with them, part of this, very candidly, and you can see it in the MOU, our City, if they participate with this, will not pay tipping fees. They can eliminate their recycling program costs and it will be done as a part of this process, and then the tax benefit. All of

Consent Item (2-h.) Memorandum of Understanding (MOU) for Proposed Alternative Energy Project – Horizon Energy Group (cont.):

that comes to about \$2.5 million a year. You know in putting together a package that not only benefits the U.C., this very directly will benefit our City too. The other cities receive a reduction in their tipping fees and what Tomoka gets out of the deal is they're able to take in more, more municipal solid wastes from other areas. So right now they have limited constraints because of national requirements for reducing size, and obviously if they're able to increase their cash flow and not jeopardize their landfill and/or having to build more cells, there's a win in it for them. And that's how we approached this whole thing, rather than trying to do a straight up competitive issue that turns everybody against one another; so I think there's a lot of value in that.

Commissioner Hall stated so when is Commissioner Zeller and Mr. Tim Beyrle going up to take a look at this thing.

Mr. Rodi stated well we were trying to wait until it got warm but probably next month, it's about as warm as it's going to get. But you know you made a passing comment that I think needs to be recognized here. Renewable energy generation is not at all like standard fossil-based generation, whether you're talking about coal plants, natural gas plants, or oil-fired units, or even nuclear. Many of the new technologies are very specific for that technology, and it's just like you can read about some of the bio-mass burners right now that even Gainesville just signed up for one with Nacogdoches, and they haven't released yet what their cost is per kilowatt hour. But that has a fluidized bed type of combustion unit and it uses a steam generator, and so there's some technology issues that are pretty well resolved, but that is their approach. Now Austin Energy also picked Nacogdoches for a plant, and another 100 MW plant in northeastern Texas. That price was quoted and they were at 28 cents a kilowatt hour. So those are staggering costs relative to that technology but part of what one buys into with a sustainable approach is forced management. And so the use of the cuttings and the materials have to be replaced if you're going to be able to sustain that kind of an operation. Other plants are very straightforward, they're the old Vermont wood burners, and you know they have lots of clean air technology hanging on them.

Mr. Rodi stated so as you talk about renewables, part of what I've attempted to do here is have energy on the ground that isn't dependent upon the high line, that was one of the things when I first came here, and secondly it was to be renewable. And so the issue going forward is whether or not we can put all the pieces of this together and this is right now probably a 25 year commitment. So that's why it's important, we've talked about it in the last couple of meetings, I'm talking about it again tonight just to clarify what that is, but until we get the pieces in, for all the MOU pieces, then we won't be able to even bring the contract in. And when we do, then we'll have to have public hearing, and also have the City approve that through two public hearings too.

Commissioner Diesen stated there is hope, or we would like to think, that in maybe 20 years it would belong to us, right?

Mr. Rodi stated yes, you know part of what happens with changes in technology is that what becomes unusual, one plant, then becomes replicated elsewhere and then it becomes more common. Even the plasma systems, Geoplasma didn't want to speak with us because we're too small, so they ended up with St. Lucie and they were looking at a very large plant. But that plant has not gotten anywhere yet, I mean they're still trying to get it going but they're running into issues. If you've worked with plasma before, the torch configuration is relatively small and that's why their units

Consent Item (2-h.) Memorandum of Understanding (MOU) for Proposed Alternative Energy Project – Horizon Energy Group (cont.):

have been generally 7 to 10 MW's and when they're all of sudden talking about 100 and 200 MW size plants, the configuration of the torches raise other issues in order to maintain that temperature and in order again to disassociate. They're very effective in being environmentally benign because you again have the absence of oxygen and you have a plasma in that case, and that's a very specific technology. My understanding of plasma came out of both the steel industry and the auto industry, and working with plasma.

Commissioner Hall stated this is a what if question, what if Horizon sells to another company. Are we still in business?

Mr. Rodi stated well part of the issue with a purchased power agreement is a requirement and an understanding among the parties. For example when they're down for routine maintenance, this is going to be a performance based contract, so if they go down and they're not suppose to go down and we have to go out and buy power, then we'll be talking about who pays for that.

Commissioner Hall stated what happens if they sell before we get to the contract stage.

Mr. Rodi stated if they sell?

Commissioner Hall stated if they sell their business to somebody else.

Mr. Rodi stated they could, but Enerkem is actually the technology company that is putting this together, so it's a little bit different. And this is pretty typical by the way, Horizon Energy is the interface with smaller systems, if you call Progress Energy small, they're really not. He then asked Mr. Weller if he had stated anything he would want to take exception to.

Mr. Weller stated no, I couldn't quite hear what the discussion was on the power purchase agreement, is there something I should elaborate on, I didn't quite hear it.

Mr. Rodi stated no, it was just simply that it will be a performance based agreement and there are a lot of terms and conditions yet to work out.

Mr. Weller stated yes, absolutely. It is an energy based agreement, that makes sure everybody is pulling in the same direction, obviously that they get paid for what they produce, end product.

Mr. Rodi stated and that's an important point, if they aren't producing, we don't pay.

Commissioner Reynolds stated to Mr. Rodi, if you were to draw boxes of where we are now, which is this is first, the MOU, and what would the next box, and the next box, and the next boxes be in terms of MOU agreements with Tomoka or other cities, and then to the contract, the purchased power agreement, and then starting building. Could you just sort of approach that in sort of a box format?

Mr. Rodi stated without conveying too much of our strategy for those who want to frankly torpedo it, obviously you see in the MOU that we'll have to have, and the we is really between Horizon Energy and the City of New Smyrna Beach, Horizon Energy and any other city, and then Horizon

Consent Item (2-h.) Memorandum of Understanding (MOU) for Proposed Alternative Energy Project – Horizon Energy Group (cont.):

Energy with the County of Volusia, and depending upon what may also happen with the County of Volusia. Those items I think have to be put in place and simultaneously while that's happening, then we will be starting to put together a contract, trying to look at the terms and conditions, and it will be relatively complicated. I think this one is a little more complicated because of the different cooperative impacts. For example, if the plant is down, then the landfill would have to start taking waste again, so those are things that are a coordination issue. They're not complicated to solve, they may be complicated to express, but there are many of those. Upon having a valid contract then, we're obviously going to have public hearings here and just like we did with the Progress Energy contract. So we'd have a public hearing here and two public hearings with the City, and then be able to start to move forward there. While all of that is going on, Horizon Energy will have to secure permits, have to bring to the table at that point the ability to actually build the plant. And at that point they bring in their partners; that's essentially it. Timeline, I know that I believe Mr. Pullins made a comment that it was like 18 to 24 months once the contract is signed. I don't know the specifics of that because we haven't talked about any of those items. Mr. Rodi then asked Mr. Weller if he had picked up on any of that.

Mr. Weller stated yes, that sounds correct, it's kind of a sequence we need to follow and the MOU's certainly the next step at this phase.

Chairman Allen stated we have one comment coming from Mr. Tolley, we see your hand raised back there.

Mr. Bob Tolley, 803 Fairway, addressed the Commission. He stated I knew there was going to come a day, no matter how we tried to get around it, that comments would have to rise to the surface because of the two hats that I have on my head. I want to say for the record, and I believe Mr. Rodi knows this, I believe I shared it with him on more than one occasion, I have no interest in putting anything pertaining to MSW or any other waste project here. I have talked with Mr. Rodi about strategically locating these types of facilities, not the one that Horizon has, but other types whether they be incinerators or burnings as they refer to them, in other locations to avoid an issue here. I want this project to go forward, or any renewable project, that makes this City and this Utility and us independent to the grid, but I've got some issues, I've got some concerns.

Mr. Tolley stated I also have been talking to the County as you know because I share my meetings with the Commissioners with you, and those folks talk out of both sides of their mouths every time you talk to them. The last thing I want to see us do is have them giving you information and I'm getting a totally different viewpoint from them. I can tell you openly, which I've discussed with you prior, that the last time I had a meeting with our local County Commissioner, Commissioner Hayman, I asked him what the status was going to be on the MSW if any of it came out of Tomoka Farms Road Landfill. His response to me was we'd most probably have to look at doing some sort of RFP; just telling you what the man passed along to me. If he's stating something else to the utility or to yourself, not my business, but I just get a feeling at the end of the day because of all the players now that are circulating looking for that fuel supply, I can see some RFP or bid process coming for that waste stream because it is becoming very, very, very valuable.

Mr. Tolley stated to Mr. Rodi, as far as the MOU, again I'm walking a razor's edge because you're the man, you (GM/CEO) and Mr. Beyrle (Director of System Ops. & Gen.) are working on this. I

Consent Item (2-h.) Memorandum of Understanding (MOU) for Proposed Alternative Energy Project – Horizon Energy Group (cont.):

have no want to second guess anybody, especially you or Mr. Beyrle. But let me just give you a point or two that I'd like to tell you that I'd look for, putting Green Coast out of the way. I'd like to see a boot, rather than a bowl, I don't want to buy the plant from them, after 20 – 25 years, let them transfer the plant to us. I'd like to see a plan B as far as the location, I don't have a problem with what's down here, but I've got a feeling others may. And I'm hoping that we can have a plan B, maybe even a plan C, something else that works if we get bogged down on plan A. But the matter like I said, what I say, I don't want to make it seem like this is becoming, I don't want to use the word personal, but anything other than trying to make sure that this project, or any project gets here, and we get off the grid regardless of what size it may be.

Mr. Tolley stated so I have to sit back there, you know, it's frustrating because I don't know what to say, what not to say. I know you may not believe that but it really becomes a problem back there. I'm not going to go into the parts of the MOU, you folks can discuss that with your General Manager, but I wanted to make sure that just by bringing this out and discussing this tonight, rather than under a consent item, was the way it needed to be going, because the City already had two, if not three folks, who are not happy campers with this project. And that's the feedback I was getting, so when I saw the consent agenda, I went no, no, no, we can't go that way, we've got to do this another way. So there are several motivations at work here, but one is not to compete in any way against the utility or undermine it in any way, or make comments from the public participation side, but rather to drive this project forward, make us more independent to the grid, which is where we started in 2005. He then asked, does that make sense?

Mr. Rodi stated he would like to make a comment. He stated for those of you aren't familiar, we had an RFP that we issued for renewable energy in 2007. Mr. Tolley and Green Coast Energy was one of the submitters and he has worked on and off with us for what we've classified as an R&D type project. So there's been a series of conversations about well could there be a generating plant placed here or there, and what kind of a fuel source from his Green Coast Energy perspective. I've continued to honor the R&D approach just in support again of other renewable projects, so I wanted to make that comment. Secondly, with respect to the County and the relationship, the relationship is with Horizon Energy and the County. Aside from the U.C. just physically being in the County, I'm not talking specifically, other than my initial phone call to the head of Tomoka Farms Road Landfill to come to the presentation that occurred in January. I also had called Tracey Barlow (Edgewater City Manager) and made him aware that this presentation was going to occur in January. From that point, there's been no other conversation, at least by me, because the relationship will be with Horizon Energy and these other parties. Part of what we're agreeing to in the MOU is to provide advice and counsel about some of the lay of the land here, what's important, what isn't important, and we're trying to do that from a standpoint of the partnership for the project; so that's straight up what's going on.

Mr. Tolley thanked Mr. Rodi.

Chairman Allen stated we appreciate it Mr. Tolley and then recognized City Commissioner Grasty to speak.

City Commissioner Grasty addressed the Commission and stated Jack Grasty, New Smyrna Beach. He stated I have two questions, you've got 600 and some tons of garbage going in there, there has to

Consent Item (2-h.) Memorandum of Understanding (MOU) for Proposed Alternative Energy Project – Horizon Energy Group (cont.):

be some kind of waste eventually that will come out, what is that waste. And my second question would be the sludge from the sewer treatment plants would be used, and I know back then there was a lot of money spent to get rid of that, will this help in the plant operation or what can be done there.

Mr. Rodi stated in answer to your question about the waste, and he confirmed Mr. Weller was listening, as I understand what happens is the carbon part of any of the municipal solid waste, whether we're talking about plant material or plastic bags or biomass solids, becomes carbonized and combines and forms a gas. That's what happens to most of the material, it's turned into a gas, like an artificial methane. There are a number of those gases that are formed and then they have to be cleaned. The solid particles that actually get into the system, actually are condensed in the bottom of this molten reactor and it ends up being used as aggregate, and it can be used for road bedding, that's the end outcome with that. And it entrains and entraps in there a number of the products that can't be used in the process. The other part that comes out is water because of the condensation as you draw the material down. Use of the biosolids is a potential but we have to get the moisture content down to 10% to 12%. Mr. Tolley has brought in a couple of different firms' information to us about what can be done, we're working yet with another firm, but you've got to get rid of that moisture content for this process just simply for a standpoint that it doesn't take too many of the BTU's from the exothermic process turning into steam; that's basically what you want to do is maintain the temperature.

Mr. Weller stated to Mr. Rodi, just for quick, throwing some numbers out there, just to give them a sense. Like you said anything that is carbon based is converted and the actual gas is basically hydrogen and carbon monoxide. Roughly 90% of the MSW is converted to hydrogen and carbon monoxide, that is the clean synthetic gas that's consumed by the conventional power plant, the gas turbine. What is not converted to hydrogen and carbon monoxide is basically the metals and glass that gets through the sorting process. And that is basically, as you could call it cuts that down or however you want to describe it, but that is not converted to gas, so that is recycled. And at the end of the entire process we don't anticipate more than 5% of the total volume ever having to go back to the landfill. So we expect that 95% plus of the MSW will either be converted to gas or recycled with only about 5% that winds up going to the landfill itself. So it unloads the landfill by 95% of its current volume and what's left is an inert material, basically has no environmental impact.

Commissioner Reynolds stated it seems to me that it's our duty to come up with ideas and solutions and present them well to the City Commission, so we have our facts together, just as we do our budget, so that they have a chance to look it over and ask questions. We would be remiss if we didn't continue on a path of trying to find a solution for our power. So from my perspective it seems like we need to go on this MOU and follow on through the processes that will be necessary and not start crying "wolf" because until we have these answers that the Commission accepts, that the City Commission is briefed on and understands, if we don't continue on this, we'll never get there. So I think that what we hear today and what we've known in the past, it seems that it's a solution that has a possibility of being viable, I don't know whether it's 60%, 50% but we need to keep plugging away at this so that we do have solutions for our community.

Commissioner Hall asked is that a motion?

Consent Item (2-h.) Memorandum of Understanding (MOU) for Proposed Alternative Energy Project – Horizon Energy Group (cont.):

Commissioner Reynolds answered it's a motion. A motion to approve the Memorandum of Understanding (MOU) by and between the Utilities Commission and Horizon Energy Group for a proposed, renewable classified, Horizon BioPower Plant Project, and authorization for the General Manager/CEO to execute any and all documents required to accomplish same. This action remains separate from any approval for a Purchased Power Agreement (PPA), which must be approved separately.

Commissioner Diesen added and its new ground, we're all out there scrambling trying to break new ground. It may not be new technology as such but the combination of them is a new way of doing things, and I agree with you. She then asked Commissioner Hall if he had seconded Commissioner Reynolds' motion, if not, she stated she would.

Commissioner Hall stated I'll second it.

Chairman Allen stated okay it appears we have a motion on the floor and a second. He then asked if there were any further questions. There being none, he requested a roll call vote to be taken on the motion.

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

Mr. Rodi thanked the Commission and then commented to Mr. Weller that he was welcome to continue to listen to us but at this point if you would like to say good night.

Mr. Weller stated okay, and added I appreciate the opportunity for the process and look forward to working with you in the future.

Mr. Rodi stated thank you very much.

Mr. Weller stated okay, good night.

Commissioner Diesen then asked was Mr. Weller in Canada?

Mr. Rodi answered he's in Washington D.C. and Mr. Pullins is some place in Oregon.

(6) Old Business

(6-a) Consideration of U.C.'s Budget for FY2010:

Chairman Allen stated we'll move on to the next item, getting back to our original Old Business, item 6-a. Consideration of U.C. budget for Fiscal Year 2010.

Mr. Bilinski addressed the Commission and stated Commissioners, this evening we will present an overview of the Utilities Commission Proposed Operating Budget for Fiscal Year 2010.

After comments and adjustments to Mr. Bilinski's microphone for clearer audibility purposes, Mr. Bilinski stated in the preparation of the 2010 budget certain assumptions have been made.

(6-a) Consideration of U.C.'s Budget for FY2010 (cont.):

He stated first of all for revenue projections, we have used the 2008 actuals as our base period. We have assumed a very limited growth of about 1%, for a slowly recovering economy. There are no rate increases projected in 2010, except for Internet, where we're increasing the monthly bill by \$1 and also for Reclaimed Water, where we're increasing the gallonage rate from \$.15 per 1,000, to \$.30 per 1,000. For staffing and general wage increases, consistent, we are projecting a staffing level consistent with year end 2008, and that level is 4% less than we had budgeted for 2009. All currently vacant positions are forecast to be fully staffed, and all employee status changes such as step increases, have been recognized in the budget beginning October 1, for a full years' impact. In addition for the general wage increase, in an effort to maintain staffing levels in this difficult economy, no general wage increase is projected in this budget.

Mr. Bilinski stated for Capital Improvements, we had the plan approved back in March, at an expenditure level of \$5.7 million for 2010, and in this budget we project to be consistent with the approved plan. The variance criteria we have used in analyzing expenses, it is at a threshold of \$100,000 was utilized.

Mr. Bilinski stated the sales forecasts for 2010, are based on demand as follows: the electric demand mirrors actual 2008 for the full year at 370 million kWh's for the year. Absent what's going on outside today, we expect water usage to increase about 5% over 2008, based on a continued dry weather pattern, and that the impact such as Tropical Storm Fay will not be repeated in 2010. For wastewater reclamation activity, we expect that to be also consistent with 2008 actual levels, and we expect that the internet customer base will stabilize at about 1,000 customers.

Mr. Bilinski stated the source of funds for 2010, as you can see there the first five items are based on revenues from services, and they total just over \$60 million for the year. The last three items are from miscellaneous sources of \$2.6 million, such as fees from developers for infrastructure, renewal and replacement fees, and other debt financing, for a total of \$62.7 million for the year.

Commissioner Reynolds asked can we ask questions as we go along or would you rather go through the whole thing.

Mr. Bilinski stated either way, go ahead.

Commissioner Reynolds stated okay, let me go back to the reclamation water going from 15% to a 30% increase.

Mr. Bilinski stated \$.15 to \$.30 per 1,000 gallons.

Commissioner Reynolds stated okay, have you taken a look at the impact that increase, which is fairly significant, might have on the usage factor.

Mr. Bilinski stated well most of what we're billing those gallons for is used on the golf courses, such as Venetian Bay, and we didn't think that would have a significant impact on their demand.

Chairman Allen stated the other side of that coin is, it's looking at recouping actual costs, is that not correct.

(6-a) Consideration of U.C.'s Budget for FY2010 (cont.):

Mr. Rodi answered yes, the costs for reuse water are artificially low, they have been for some time, and what is occurring now is that we're reaching our capacity, even with reuse water. And I think that a lot of the numbers are we're using about 90% of the water that we have available. Part of what we have to do then is also manage that supply, and one of the ways we start to approach it is, even though \$.30 cents is still a modest amount, it will have some effect on reduction. Part of what we plan to do, is if we can manage also the reuse, this new power plant has to take water, and it will take reuse water. So, what we're attempting to do, with for example the river outfall, Mr. Hoover's just finished probably a third of our irrigation on some of the highlands out there on our property so we can stay off the river. And if we're then able to store some of that, then we can take advantage of that reuse water for multiple uses. So it's a more involved process, I don't recall the number exactly with the increase from \$.15 to \$.30, but it's not a lot of money though, over all. Mr. Rodi then asked Mr. Bilinski if he remembered the amount of money that the increase would be.

Mr. Bilinski stated \$85,000 dollars a year.

Mr. Rodi stated okay, total impact.

Mr. Bilinski stated correct.

Commissioner Reynolds stated second question I had, with the assumption that the electric demand would remain the same, it seems to me that if we're losing meters that could have a negative impact on that assumption. So it may be something for you to take a look at in the next month or two to see. The worst of the economy has not reached New Smyrna Beach yet, so you may see a significant amount of other reduced meters, I think, in the next year.

Mr. Bilinski stated I will work with Mr. Beyrle.

Commissioner Reynolds then added because that's an assumption, I mean, you know.

Mr. Bilinski stated yes.

Mr. Rodi stated can I just make a comment on that. In prior years the retail energy sales in 2008 were like 370 millions of kilowatt hours, in 2007 it was 378 millions, in 2006, 383 millions. So what's been happening is that we have been seeing the reduction and working from that reduced level. For 2009, so far, the kW hours sales are right around 7% to 8% under the prior year. And so when we tried to forecast what was happening with what's really going to happen for next year, we think that the actual consumption amounts are pretty well bottoming, and part of what we have to do is extract the effect of the weather; the weather has had a very dramatic effect. So out of that 8% differential for us, half of that has been weather, and the balance is right around 4% relative to the economy. Other utilities are having 6% to 7% impacts from their economy, so that why we're a little bit different is that we don't have a lot of industrial or commercial or larger loads, so their drops have been more significant because they've had those losses. So we took all of this is in and, Mr. Beyrle, Mr. Hoover, and Mr. Bilinski were very patient with those very questions that came from me. Well, how do we know this is going to be a solid forecast, I don't want to underestimate, I don't want to overestimate, what do we do, and so this is where we ended up.

(6-a) Consideration of U.C.'s Budget for FY2010 (cont.):

Chairman Allen stated on the other side of that coin, I probably concur with their methodology and thought process. Also over the years we noticed, we've been proactive of looking at energy conservation, which I think a lot of our savings, a lot of the drop in the kW hours has come from that. So, consequently, as we look forward I think things are balancing out, and I feel comfortable with those numbers.

Mr. Bilinski stated note, we are showing a negative \$1 million in source of funds labeled power on the second line of the chart. You will recall that the decision was made during the fuel price spike in the summer of 2008, to hold the fuel and purchased power adjustment constant at \$0.417 per kW hour. The above amount reflects the UC's continuing efforts towards recouping the under recovery of fuel costs from customers in 2010. And that's just buttressing what Ms. Klinkenberg was talking about during her presentation, that the under recovery is down to \$3.1 million as of April this year. We expect to continue to see that decline as the natural gas prices that are used to make electricity continue to hover lower than 4 MMBtu's per 1,000 gallons on the market now.

Mr. Rodi stated I want to make a comment because again, we are trying to forecast something very complex, especially for our capabilities, and if the market returns to where it was in 2008, and it's somewhat questionable about what will happen, but you've already seen gasoline prices starting to ratchet up. Natural gas wholesale is, last I saw today, right around \$4.15, and have been down into the low \$3's. We don't know what's going to happen, but if we're able to continue to buy power, now bear in mind, we don't buy any of the fuels, others buy the fuels and then they pass that cost on to us. So that if they're able to be successful and maintain lower fuel costs, then we'll be able to eventually recover the amounts that we're in arrears, from having carried this for several years. But what I'm warning about, if it goes out of sight again, then we're going to have to step up because we can't take another \$4 million dollar hit, not on that.

Mr. Bilinski then stated the UC's uses of funds are primarily for operating and maintenance expenses as developed by our division directors. As you can see on the bottom of the chart, the total O&M is projected to be \$46.3 million for 2010. If you look on the left hand side of the chart, the direct expenses of Electric, Purchased Power, Internet, Water, and Wastewater Reclamation, total \$37.5 million of the \$46 million of expenses. And of that \$37 million, \$32 million approximate, is for Electric and the Purchased Power, so that's on my main driver in our direct expense category. On the right hand side of the chart you have the support departments, such as Administration, IT, HR, Engineering and Finance. And they total just short of \$9 million in expenses proposed for 2010. Not shown on the chart are additional uses of funds, including Debt Service for another \$7 million, City payments of \$3.5 million, and Capital Improvements of just under \$6 million for a total of \$16 million there.

Mr. Bilinski stated the next chart just shows a brief overview of the organizational structure of the U.C. On the left hand side of the chart is administration, including again IT, Human Resources, Finance, and Engineering, and on the right hand of the chart we have all of our operational departments, which can be seen on the next chart by functional area. You can see we have a total projected for 2010 of 171 employees, 105 employees, or 61%, are in operational areas of Electric, Water, and Wastewater Reclamation, and 39%, or 66 employees are in the support departments. Certainly, our employees are our most valued asset, they cost us, if you want to use that term, just under \$12 million a year, \$8.5 million of that is in salaries and other compensation. Health

(6-a) Consideration of U.C.'s Budget for FY2010 (cont.):

insurance runs \$1.4 million a year and other benefits are \$1.9 million. The average employee salary, as you can see on the bottom of the chart, for salary and compensation is just under \$50,000 per employee, and with the average for benefits, is just over \$69,000 per employee. Those other benefits are things such as workers compensation, retirement plans, life insurance, FICA, and ICMA contribution. And in those categories the two biggest ones that combine for almost three quarters of the \$1.9 million you saw in the last slide, are the retirement plans and the FICA, combined are almost 75% of that total.

Commissioner Reynolds stated have we done any comparison with other utility companies in regards to our salary average.

Mr. Bilinski stated I think so, I believe Ms. Di Chiara has.

Commissioner Reynolds stated and if so, how do we stand in that, are we competitive.

Mr. Rodi stated I have some numbers, again, the base salary is \$49,836, and the same base salary for utility workers in Volusia County in 2008 in that survey, was \$66,384. So this is the same general area and this is done every year. The prior year the survey was \$53,655, and the year before that, in 2006, was \$48,506. So you can see that UC employees on direct salary are running essentially at 2006 levels. Now I know that the Director of H.R. is going to be just thrilled with those numbers when she sits at the table again but when you look at the supplementary salary, it's still 28%, which is competitive. What we have done is we have a good supplemental benefits system, I'm talking about basically our health care system. So you know we look at those things, and added they sometimes show up when employees leave. He then confirmed that he had answered Commissioner Reynolds' question.

Chairman Allen then requested Mr. Bilinski to continue.

Mr. Bilinski stated okay, included in your draft budget package that you were provided last week was also a five-year budget projection, and I just wanted to inform you the average expansion factors that we used were 2.5% annually for revenues and 2% increase annually for O&M expenses. The debt service which is another critical piece, and we have actual expenses that we are able to accumulate every year. Also in your packet was the five and ten year approved CIP, and there has been no changes since the package that you looked at in March, so it is consistent with those amounts you saw at that time. He then concluded by stating I believe that's it.

Mr. Rodi stated I wanted to ask a question, in the transmittal letter we said that we would make minor corrections when we found errors or what have you, and I don't believe that we've made any changes to the package that was given out.

Mr. Bilinski stated that's correct, we have not.

Mr. Rodi stated so I wanted to clarify that particular point.

Chairman Allen then asked if there were any questions.

Commissioner Reynolds stated sorry, I'm the only one asking, but is there, with the state of the

(6-a) Consideration of U.C.'s Budget for FY2010 (cont.):

economy, and the fact that we are facing unforeseen price increases or certainly variances, are there any Capital Improvement Projects in here or things that can be delayed for a year.

Mr. Rodi stated let me just explain the process a little bit. We, even with approvals, do not build a project just because we have the approvals; so that's been a consistent approach. Frankly, we have a priority system that we use with the projects and when we need to have more money, for example say fuel and purchased power, we unfund projects. That's essentially what we've been doing, that's how we've managed carrying this extra cost, so essentially we are managing the dollars that we have and the projects. And I think Mr. Hoover, and Mr. Mitchum who's not here, but every time we have a project, we usually end up talking about do we really have to spend this money. And we've been very cognizant of that just from a standpoint of spending money on what we really need to spend the money on. He reiterated, there's a formal priority system that we use and we argue about whether or not we're using it correctly. We have the next refinement as soon as we can get Great Plains 10 in there, we'll be using another economic analysis tool called Economic Value Added. And so it's a sophisticated way, just beyond a so called Net Project Approach, and it's all sort of tied together. He concluded by stating that's all I can say about that.

Chairman Allen asked if there was a motion and then read the recommended action.

Commissioner Reynolds stated he made that motion, to approve and adopt the proposed Budget Estimate for Fiscal Year ending September 30, 2010, pending City Commission's approval, and authorizing staff to forward same to the City Commission for their approval. Commissioner Diesen seconded the motion, and the motion then passed unanimously on a roll call vote.

(6-b) Proposed Resolution RE: Eminent Domain Action – FEC Railway / Flagler Development Group for Utility Crossing(UC Resolution No. 3-09):

Chairman Allen then moved on to the next item under Old Business.

Mr. Preston stated as you'll recall last month, you all discussed and we took some direction in regards to the eminent domain proceeding that we were considering, and still are considering, for the proposed route, an easement route for a 20" water line main, in particular over the FEC, now Flagler Development Group, managed and owned properties. And we've been doing that, inasmuch as we're putting together a pre-suit negotiation package that is required by Statute now, F.S. 73, as of a couple years ago I believe, was amended that required this pre-suit negotiation where you provide an offer to property owners prior to suit. I've also been in communication with the attorney for that group, Glenn Storch, and we have been waiting now for a couple of days for a response from Mr. Storch with the anticipation of some negotiation for this matter. I was hoping to have something to bring to you tonight, but don't. So we would like to move forward anyway and part of the process of doing that is, again F.S. 73, requires that you enter into a resolution authorizing the eminent domain proceedings. So we have developed that resolution for you, for your consideration tonight. And I've also incorporated into that resolution the resolve to pursue pre-suit negotiations with the owner, property owner; so you have that resolution before you. If you have any questions, here I am, and commented he was short on voice but strong on response.

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

(6-b) Proposed Resolution RE: Eminent Domain Action – FEC Railway / Flagler Development Group for Utility Crossing(UC Resolution No. 3-09) (cont.):

Commissioner Diesen stated I make a motion that we approve the attached resolution authorizing Pre-Suit Negotiations, and if not resolved, to proceed with an eminent domain action to acquire an easement property right in real property to enable a utility crossing for the public purpose of installing a 20” potable transmission water main. She added upon approval, the resolution will be number 3-09 and will become effective immediately upon passage. Commissioner Hall seconded this motion and it passed unanimously on a roll call vote.

Chairman Allen commented that appears to be the end of Old Business and we’ll move on to New Business.

(7) New Business

(7-a) Revision to Service Fees Rate Schedule – Schedule of Public Hearings:

Chairman Allen stated the next item, read the recommended action, and asked if there was a motion to that effect.

Commissioner Hall stated so moved, and made the motion to authorize the scheduling of two public hearings regarding updating and revising the U.C.’s Service Fees Rate Schedule on June 15, 2009 and July 20, 2009, preliminary and final respectively, at 6:00 p.m. prior to the regular U.C. meetings on those dates. Commissioner Reynolds seconded that motion and the motion then passed unanimously on a roll call vote.

(7-b) Revision to Residential Underground Service Lateral Requirements and Policy - Scheduling of Public Hearings:

Chairman Allen then stated the next item, read the recommended action (then corrected), and asked if there was a motion.

Commissioner Reynolds made the motion to authorize the scheduling of two public hearings regarding revisions to the residential underground service lateral requirements and policy on June 15, 2009 and July 20, 2009, preliminary and final respectively, at 6:00 p.m. prior to the regular U.C. meetings on those dates. Commissioner Hall seconded this motion.

Mrs. Simmons pointed out a typo to Chairman Allen, on 7-b, what he just read on the recommended action should say residential underground service lateral requirements and policy.

Chairman Allen stated okay, and added it’s a revision of the underground services that we provide.

Commissioners Diesen then confirmed the consumer pays the difference between what it would be coming in overhead and going underground right, to go underground. Is it now required for any infill that they go underground.

Mr. Rodi stated in the City it is, in the County it’s not required, but any in the City, even a service lateral is required to be underground.

(7-b) Revision to Residential Underground Service Lateral Requirements and Policy - Scheduling of Public Hearings (cont.):

Chairman Allen stated this is also a one time cost, is that not correct.

Mr. Rodi stated that's correct, and obviously we have to periodically update our cost because what we're carrying now, our costs are quite old.

Chairman Allen stated this hasn't been changed in quite awhile has it.

Mr. Rodi stated it's been awhile, yes, 1987.

Chairman Allen commented that's awhile.

After confirming Commissioner Reynolds motion that he made previously, Commissioner Hall seconded the motion. Commissioner Reynolds' motion then passed unanimously on a roll call vote.

(7-c) Consideration of Continuing Provision of Communications Services (Internet – Dial Up, Wireless Fiber) – Scheduling of Public Hearing:

Chairman Allen then continued to the next item and read the recommended action.

Commissioner Diesen made a motion authorizing the scheduling of a public hearing to consider continuance of the U.C.'s provision of communications services on June 15, 2009 at 6:00 p.m. prior to the regular U.C. meeting on that date. Commissioner Reynolds seconded this motion.

Chairman Allen asked if there were any questions or comments.

Commissioner Diesen confirmed it only requires one hearing.

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

(8) Possible Other Business – Time for Commissioners:

Chairman Allen then asked Mr. Rodi to begin.

Mr. Rodi stated I wanted to provide just a brief update on the failure analysis of the 30" force main. Engineering has been really trying to sort through, along with some experts, as to what may have happened to cause two failures. And understand too, that we will end up being involved in a consent decree, and it could be eventually as severe as replacing that entire line. So, we're talking a lot of money, \$3.5 million, somewhere in there. So far, and this is very difficult to find, the root cause, but so far it appears as though the problems were due to the way the pipe was installed, and it caused a weak point at the interface with the bell that receives the pipe, and when they pushed it, they pushed it too far. And over many years, it's 11 years now, of flexing and moving, eventually the pipe would break. Just like you would imagine a piece of glass, so once it reaches that point, it's not really accurate, but in effect, that's what's happened, it just splinters and it runs all the down. So we are still working with FDEP, because it's important for us to also try to resolve this. Was this one section or two sections, we know we had at least two, or is this every section. So the first approach

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

is going to be to try to find if there are any weeping situations, which would be an indication, because we have to keep this in service. He stated and then the second part is digging up the area around the collar, the bell, and the fitting, and looking at it. And so we will have a systematic approach to do that, and then reinforcing that bell as an attempt to mitigate the stress. Now, this pipe line was supposed to be designed for 100 psig pressure, we only run it at 30 to 40 pounds, and so, you know for this to have happened now twice, we're really trying to find out what can be done to avoid the overall cost. What we hope is that maybe this didn't happen in every case, and we'll just begin a systematic approach, and if it turns out that every one of these are like this, and we can't remediate it by strengthening that bell collar, then we'll be talking about some other things. He then confirmed with Mr. White he had summarized that well.

Mr. White stated I think pretty well, and added if there are any specific questions, I'd be glad to try and answer them.

Mr. Rodi stated so our next steps are, we've done a lot of analyses, and we had a pipe bursting expert. There's a technique where you can replace pipe by inserting another pipe and breaking apart the existing one and have a larger pipe take its place. That is the kind of specialized knowledge that we'll use to try and understand what made this thing go bad to begin with twice, because they had very similar problems. We haven't ruled out all causes, but more and more it looks as if was just the way the thing was constructed. And there are lots of other warts to this but not worth talking about at this stage. So we will be talking with FDEP and we'll have, I'm sure, an order to bring back to the Commission, but I think everyone's intent is to try to get at what really caused it, and can we do anything about it; that's where we are. He stated that's what I wanted to convey, just so someone doesn't say why didn't you say something; well, it took this long to get all the test results back.

Chairman Allen then asked the Commissioners if they had any items to discuss.

Commissioners Hall, Diesen and Reynolds indicated they had no further items to discuss.

Commissioner Zeller stated if we have two competing equal Certified Public Accounting Firms, I can't see how we picked the more expensive one. We're trying to save money and stay on budget, so, and I know both firms, and they're both good.

Ms. Klinkenberg readdressed the Commission and asked to make a comment as she had some additional information about this. One, I'd like to thank you for supporting our decision, but something that I'd like to explain, our set-up is a little different than a lot of cities and a lot of municipals. Mr. Bilinski and I do not touch the general ledger, we have oversight of it, but we have a Chief Accountant, who's an accounting manager, and a full staff of accountants that do all that. And for control purposes, I'm not allowed to post a journal entry, even when I was acting as both positions in the transition stage, I wouldn't even sign any checks, Mr. Rodi took care of all that. So we're very careful with that, to make you feel a little better.

Ms. Klinkenberg stated when it came to the evaluation of the actual firms, and I have nothing against James Moore and Company, I was very, very impressed with their books, and their proposal. The real deciding factor was the electric part of it, electric utility accounting is extremely complex, there's a whole other layer of accounting that goes into it, it's called the FERC

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

Account, it's the Federal Energy Regulatory Commission. It's a whole other layer of the way you have to report, the way you account for your assets, and then there's the taxes associated with it too. James Moore and Company, in their own documentation, stated that they have only audited two electric utilities, and not just the one office in Daytona, they're talking firm wide, which is hundreds of employees that are included in Orlando. The two utilities that had electric, are the City of Williston and Newberry. They are both under eleven hundred, I'm sorry Newberry is eleven hundred and Williston is fourteen hundred customers. Their rate schedules are extremely simple compared to ours, the tax levels are not the same, they only have city tax, they do not have county tax, and their purchased power expense is like a fraction compared to ours. So when you look at that, that almost took them completely out the running. She added and honestly, the only reason this company was less, they put a very huge discount, they put the line right on their pricing and that was to bring them below, otherwise they were actually higher.

Mr. Rodi stated and just for clarification, because a number was thrown out, that was an aggregate over the three years.

Ms. Klinkenberg stated right, over a three year contract.

Mr., Rodi stated the other part of that is, and I think everyone knows that, when someone new comes in, yes, there are some positive things, but if we have to expend our time teaching someone what they don't know, that costs us money too. And so, I don't like the acrimony that this created, it really did, and I think that's most unfortunate, but this is the second time we have bid the contract. The first time we were going through the telecommunications issue, nobody wanted to touch that, because it was so complicated. We still have some remnant of telecommunications here, but nevertheless I just felt that the bidding process was the right way to go.

Ms. Klinkenberg stated and I was very pleased to see that twelve people downloaded our documents, and I would have preferred to have had more respondents to it. One thing I forgot to mention about Brent Millikan, they actually proposed a totally new team for us. I mean Alex Kish has always been there but he has not been active on the audit team since I've been here, and I've been here at Utilities Commission this coming year would be our fifth audit. And he has never been active on it, this is the first year he will be running it, Brad Douglas has been put aside on the audit, and they have a whole new team of accountants working on us, and that complies with the SAS regulations.

Commissioner Diesen stated I'd like to make a comment too about Moore. I used to sit in all the City Commission Meetings, and I remember, it's their practice, I think, when they come in near the top to go and make a case. Which is fine, I mean they're a good firm, I have nothing against, but I've witnessed them, it was the same lady, and it was almost verbatim, so.

Ms. Klinkenberg states yes, she was quite aggressive with us, even at the meetings.

Chairman Allen stated he would like to comment on appreciating staff and the way they evaluated. A lot of times we have to lean upon them and one of things that I would like to see, maybe be a little bit more specific when the information comes to us, give us a little bit of input as far as this was an evaluated process that we went through and give us a little bit of understanding on that so

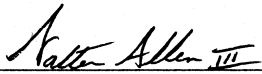
(8) Possible Other Business – Time for Commissioners (cont.):

you're not caught off guard; kind of an understanding and knowing. The firms that came to the table are good solid firms, but the thing is looking out for the best interest of this Commission and the staffing, and again as Mr. Rodi said, if you bring someone in that is of a lesser caliber in covering of an audit, compared to our size, there truly is a major transition to bring that person up to speed. So we look and I appreciate the quality of the staff and their recommendation toward this. It was a concern a couple of years ago that the Commission go out for bids, just to get a understanding that there's an opportunity, and may very well had been someone that was very well qualified that would have very well bid on it. So we opened that opportunity and always are open to that. And I'd like to just express one thing, I again appreciate Mr. Rodi as our CEO/General Manager, his openness, transparency, and his always being open to of keeping things above board. And as we walk through the next few years, and especially trying to look at renewable energy and bringing on a project, it's so important to remember that and to have that quality leadership leading us. We're very fortunate to be able to have that expertise to keep us going in the right direction and I appreciate it.

Mr. Rodi stated thanked Chairman Allen and added I think more information would have helped, I understood that.


There being no further business to come before the Commission, Chairman Allen closed the regular U.C. meeting at 8:18 p.m.

APPROVED:



CHAIRMAN

ATTEST:



SECRETARY-TREASURER

These minutes were formally approved by the Utilities Commission at their June 15, 2009 meeting.