

**AGENDA ITEM 2-a**

MINUTES OF A WORKSHOP MEETING OF THE UTILITIES COMMISSION, CITY OF NEW SMYRNA BEACH, FLORIDA, HELD FRIDAY, MAY 16, 2008, AT 10:00 A.M., AT 200 CANAL STREET, NEW SMYRNA BEACH, FLORIDA

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

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

Others in attendance were as follows: R. Rodi, General Manager/ CEO; L. Klinkenberg, Director of Finance; T. Beyrle, Director of System Operations & Generation; D. Hoover, Director of Water/Wastewater; J. White, Director of Engineering; P. Perez, Director of H.R.; B. Bilinski, Controller/Budget Supervisor; E. Mahle, Public Information Manager; D. Simmons, Executive Admin./Recording Secretary; B. Preston, Interim U.C. Legal Counsel; Melanie Stawicki-Azam, Reporter for the NEWS JOURNAL; and Bob Tolley, a member of the public.

(1) Presentation and Discussion of U.C.'s Budget – FY2009:

Chairman Allen stated okay, we're going to have a presentation, discussion.

Mr. Rodi stated yes. What I thought would be helpful today, and as you notice this is a little bit different, I thought a workshop might be very instructional especially with some of the issues that are behind the budget. And this is a very unstructured approach, I think we have a very brief presentation and then we can just take this as it comes. I thought that would provide the greatest flexibility for everyone. So with that I'll turn this over to Ms. Klinkenberg and if you will, introduce Mr. Bilinski.

Ms. Klinkenberg stated good morning. I want to introduce you to Brian Bilinski, he's our Controller. Mr. Bilinski comes to us with just about 30 years experience in our industry, he's been with us almost six months. He was instrumental in developing the budget, working with all the Directors, and he's going to do our presentation today.

Mr. Rodi reiterated that Mr. Bilinski was the U.C.'s Controller.

Mr. Bilinski addressed the Commissioners and Mr. Rodi, and stated thank you very much for making time this morning to meet with us about the 2009 proposed budget. He stated in the preparation of the proposed 2009 budget, certain assumptions have been made including revenue projections, general wage increase, capital improvement plan, and variance criteria. As far as revenue projection goes, we started out by using the 2007 actual experience as our base period and

(1) Presentation and Discussion of U.C.'s Budget – FY2009 (cont.):

then included an approximate 3% growth factor for hopefully a recovering economy going forward in 2009. Also we have not changed rates in 2009, nor in the five-year projected period; so we've kept our rates stable. The general wage increase is 2% effective October 1, 2008 so it's effective for the full year, fiscal year 2009. We've also projected any employee changes such as promotions that may be recognized during the coming year, also as of October 1<sup>st</sup>, so that they have the full year impact. He stated our capital improvement plan for 2009 is just shy of \$8 million and that is consistent with what you've seen and approved last March. He stated in analyzing expenses for 2009, we have established a threshold of \$100,000 to look at those variances as an upset.

Mr. Bilinski stated this budget uses an activity based approach that is in addition to direct expenses for services such as electric, water and wastewater. There has to be an allocation of certain support departments to those services and we have used criteria such as purchase orders per division to allocate purchasing expenses, number of employees by division for H.R. and Administration expenses, and things such as computers supported by division for I.T. expenses.

Mr. Bilinski stated we have over \$70 million as a source of funds projected for 2009. Of that amount, if you look at the first four items, those are revenues from our services, electric, water, wastewater, and internet, and they total just over \$65 million of the \$70 million. The other \$4 million, those three items on the bottom, infrastructure, renewal and replacement, bonds and other financing, have to do basically with capital needs and sources of funds to support those capital needs.

Mr. Bilinski stated our uses of funds for operating expenses totaled just over \$49 million. If you look at the left hand side of the chart (in the PowerPoint presentation), the first four items are consistent with the services we provide of electric and power, internet, water and wastewater, and those direct expenses total just about \$40 million of the \$49 million. The right hand side of the chart, for Director, I.T., Administration, Engineering, and Finance, are our support departments. And again, as we talked about before, those need to be allocated to the four services that we provide, and they're about \$9 million projected for 2009.

Mr. Bilinski then stated I just wanted to give you a brief overview of the organizational structure of the Utilities Commission. Starting on the left hand side are the five Commissioners, then Mr. Rodi's Executive branch, we have the Electric Operations of which there are five main operating divisions, there are four in the Water and Wastewater sector, two in Engineering, electrical and environmental, IT, Human Resources, and then Finance which includes customer service, billing, meter reading, materials management, and accounting.

Mr. Bilinski stated, and just filling in the pieces here, the number of employees by department and area, we have a proposed total of 178 employees which includes the five Commissioners. If you look at the pie chart on the left, 51 employees are associated with electric which is 29% of the total, water and wastewater comprise 32% of the total. There are four in the internet division, and 66 employees proposed for the support area which includes again, things such as accounting, human resources, the Director, IT, and customer service. He stated to give you a little sense of the cost of our most valuable asset, which are our employees, we spend \$12 million of the \$49 million of O&M that you saw before in total compensation. Of which \$8.7 million is associated with salaries,

(1) Presentation and Discussion of U.C.'s Budget – FY2009 (cont.):

health insurance by itself is big number, that's \$1.4 million, and other benefits of \$2 million; totaling \$12 million. So that's about 24% of the \$49 million of O&M expenses we propose to incur for 2009. Just to give you a little flavor of what's in the other \$2 million of benefits, we've got things such as workers' compensation, retirement, group life insurance, tuition assistance, unemployment, FICA, ICMA contributions, and health savings account; which total again \$2 million for 2009.

Mr. Bilinski stated also in your packet, toward the back, is a five-year budget projection and basically what we've done is take the 2009 and use growth expansion factors in the range of 2% to 3% for both revenues and expenses, and compounded annually to go out to 2013. We've also included for your review the five and ten year capital improvement plan, which for the ten year period is just about \$100 million worth of new capital projects. I would just throw out that in the second five year period, there is significant emphasis on a wastewater treatment plant expansion that's going to be needed about 2013 to 2014. He concluded by stating now we come to any questions you may have.

Commissioner Diesen stated to Mr. Bilinski, you said there's no rate increase projected for the next five years.

Mr. Bilinski stated that's correct, and that's only because that's as far out as we've gone in projecting the numbers. It may go further than that, but at least definitely for the next five years there's no projected rate increase.

Ms. Klinkenberg interjected in our numbers, that's not necessarily what will be reality, we adjust those every year when we reanalyze the yearly budget.

Commissioner Diesen then stated well, is that realistic.

Mr. Rodi stated at this point it is not, and I think that deserves some discussion. For next year, the 2009 budget year, we have not planned for any change in rates. So in the area of electric, water, and wastewater, we're doing what we can to hold the rate, principally because of what's going on with the economy. What is in our future view is next year we will be looking at the affects of fuel and purchased power. Consistently, what we've said is whether it's the new Progress Energy contract, that contract by itself will not increase the rates, but the fuel and purchased power component of it would escalate with the fuel cost. Just like we're all seeing with gasoline, which is now pushing \$4.00 a gallon, we really don't know what affect that will have on our rates, it's very unpredictable.

As you know, every month we monitor what our purchased power contract results are, and so far for this budget year, we've recovered maybe about a million and a half from the \$4.7 million that we had been carrying back since 2006. So we're, I think, slightly under a million dollars at this point in money that we still haven't recovered from the last fuel run up. So what we did with this budget, is we said well, fuel and purchased power is an area that we'll do everything we can to manage what those expenses are. The reason why we're saying it that way is our recovery amount that we have built into our rate is higher in order that we could recover that past amount. We had hoped by the end of this budget year to be able to lower that rate. Well, what is happening on the market right now is it is erasing any of that, so our hope is that through these exceptionally hot, heavy demand months that we're going to continue to be able to manage what the results are, but we're not guaranteeing that we won't have to raise the rate; our intent is not to do that.

(1) Presentation and Discussion of U.C.'s Budget – FY2009 (cont.):

Mr. Rodi stated the other areas that we are looking at, for example, is reuse. We have under priced reuse as an incentive and the costs are becoming too different from our revenues, so we're going to have to study what our pricing is with that. The other areas that we're looking at are street lighting, some of our services that we provide, and also pole attachments basically for cable operations. We've done the pole attachment amount for telecommunications, meaning telephone companies, but cable has a different set of criteria that we must work with. So in the budget year 2009 these are items we'll be looking at where there may be adjustments. For the period of time 2010 and beyond, we really don't know what will be happening to forecast any amount is very much unknown. For example, there are initiatives underway at this utility and others for conservation rates. Part of what will be in the year 2010, not the 2009 budget year but for 2010, are conservation rates. Generally what that means is for those persons who use greater amounts, from whatever that structure is, there's a significant increase in costs in order to use economic mechanisms in order to help manage demands. So until we go through that approach, what we're trying to do is hold where we are and then adjust to better known market conditions. Our hope is that the economy will start to turn around near the end of 2009, but there are some forecasters out there that are forecasting even worse conditions than what we have now.

Mr. Rodi stated I wanted to comment on this budget so that you can understand what I asked the staff to do. For this year, there are many expenses that I've asked to be deferred. For example, we had a number of truck replacements in the electrical area. The kinds of choices that we're making right now are that we need to support customer needs first, and then employee needs, and beyond that we need to use our assets as best we can. So it makes sense for us at this point not to go out and buy a \$150,000 truck if I need \$300,000 for increased health care costs. So we've done a lot of work with this particular budget to pare down the costs, to hold where things are, and then we have to, during the 2009 budget year, use better tools. What I mean by that is for the five year forecast, what you saw here is a 2% or 3%, it's a pretty typical straight line approach. Part of what we're hoping to be able to do, and we think we can, is with our new accounting system actually having more intelligent projections. To be able to use this system to forecast realistically where growth rates may be going to incorporate other information that right now we would have to do manually, but don't have the people to assign to do this manually.

Mr. Rod stated so we're hoping to drive, for example, the system results, all of our projects are now loaded into this new accounting system, so multiple year projects and unknown. Mr. White and I have been talking about this, it can have a very dramatic impact on costs, in that as you know, we're planning to put in the new 20" water line. If we end up with archeological costs, those costs can be very high in and of themselves, it's like Riverside Drive. I think, what did we spend, \$30,000, just for the archeologist, and that was to extend a water line along Riverside Drive. Not only can these archeological costs be high for that water line, but the project can stop and it could be delayed by months. And what we have are timelines that we're putting together for the contractor, for installations, and so these are the kinds of discussions that have occurred behind the numbers. That's why I thought a workshop would be appropriate so we could talk about these things.

Mr. Rodi stated Mr. Beyrle and I have been talking about fuel and purchased power. Between last year and this year, which is high, we're looking at another \$2 million all together. And the forecast for fuel prices seems to have somewhat of a delay as oil and natural gas prices affect the electrical

(1) Presentation and Discussion of U.C.'s Budget – FY2009 (cont.):

generation of power. Right now oil prices are really driving gasoline because of refining capacity as well as what product is in the pipeline right now. So as we look at, just from the time that we were talking about the new Progress Energy contract, the price of natural gas per million was right around \$7.50 per million, it was right in the range and we were watching it. Right now, it's over \$11.00 per million, and some forecasters are saying it will go back to the period like we had in 2005 and 2006, at \$20.00 per million; some are even forecasting higher amounts.

Mr. Rodi stated so, in answer to your question, we have not forecasted increases with regard to revenues or rates, but we know at some point we will have to step into that arena but we have to do it with a different rate structure. A lot of this is being driven by what Governor Crist is doing, some of it is due to the effects of a lack of generation installed on the system. I think for those who are reading different news accounts, Florida Power and Light is converting a couple of their older plants to natural gas plants, we're talking large, large facilities, 1250 MW type units, that take a lot of natural gas. If there's not an abundant supply, then the price goes up because of that demand. FMPA has moved to a natural gas combined cycle and that's because there aren't the renewable plants to substitute for these large sizes, and also the market is all upside down right now with heavy demands going on. So I wanted to give an extended answer to what was, I think again, a very perceptive question but the answer's obviously more complicated than what it hopefully would be.

Commissioner Hall stated having been there before, knowing that a budget is a living document that changes daily, sometimes hourly, sometimes by the minute, what is customer service going to tell a customer who reads the newspaper article from today's meeting. Someone who calls in and says, oh, I'm not going to have a rate increase. You haven't factored it in, what's going to be our response.

Mr. Rodi stated well for the year 2009, we are not planning a basic rate increase for electric, water and wastewater.

Commissioner Hall stated so we're going to...

Mr. Rodi interjected, I'm not finished yet, but there could be an electric rate adjustment due to fuel prices. And we have consistently said that with the Progress Energy contract, as well as our current status, and we will continue to monitor our fuel and purchased power expenses compared to our recovery in that area.

Commissioner Hall stated and that will be made clear to any customer who calls in.

Mr. Rodi stated I think we can express it ...

Commissioner Hall interjected I mean I understand it, but I want to be sure the customers do.

Mr. Rodi continued, as clearly as we can but we all have learned that even when you think you're clear, there's some who understand it a different way.

Commissioner Hall commented yes, they hear what they want to hear.

(1) Presentation and Discussion of U.C.'s Budget – FY2009 (cont.):

Commissioner Diesen stated your explanation was great but it raised a couple of questions.

Mr. Rodi stated sure.

Commissioner Diesen stated let's go to the electric equipment, the trucks and everything, you know that's our primary business, along with our water and wastewater, I'm not cutting you short Mr. Hoover. But, you know, if we don't have the rolling stock to do what we need to do. I want to make sure that we're not cutting something with the bucket trucks, that they're in good operating order, and we have enough to cover our needs.

Mr. Rodi stated I detect there's a question behind the question. We obviously have negotiations going on with Local 2088, and there are a number of representations that are being made, but let's look at some factual information. Some of these older vehicles have 5,000 hours on the engine meter. Now all that means is that the engine has run for 5,000 hours. If the truck is still 10 or 12 years old, and it's only got 5,000 hours on the engine, that means the boom and other appurtenances have even less use, because we know that oftentimes these vehicles sit there and idle while they're planning to do their work, and there are a lot of those issues. Part of what we are doing is reviewing the methods for the testing of these vehicles, and there's both a dielectric test for the electrical integrity of the boom itself, and there's a mechanical test that's a loading test that deals with the stability of the vehicle, the twisting on the frame, its ability to function. Part of what often happens is if you attend any of the auctions, those entrepreneurs look for vehicles for low engine hours, even though the vehicle is old and they sometimes don't look as good as they actually perform. So what we're doing is we're extending the periods but therein is an obligation to do things, to replace what needs to be done. So one of these older vehicles, for example, we just put a new engine into it, because even though it didn't have those many hours, the lack of extended use or whatever, and intermittent use does have some effect on the sealing of the rings and everything in the motor. So we will look at that but when we are making choices and the dollars are spread, we're trying to place the dollars more appropriately, especially in times like we're in, so we're trying to do that correctly.

Commissioner Diesen stated I'm not one that, you know, just throws out a vehicle because it's got a few miles. We were just talking about that, driving like even personal vehicles forever, but as long as they're not, you know they don't have holes in the floor and they're not stopping with their feet or something. There are a couple of other things, one of them, has there been an archeological survey done on the proposed routing for that 20", do we know yet?

Mr. Rodi stated at this point we are still solidifying the route and I think Mr. White is in the middle of that one. He's very cognizant of the archeological zones and we hope to minimize the impacts as best we're able.

Commissioner Diesen jokingly commented we're not making a big loop and going out...

Mr. Rodi commented we thought about it.

Commissioner Diesen stated okay, the other thing that you mentioned that peaked my curiosity is you talked about conservation structure. Is that, that's something that's already in place and has been vetted elsewhere right, so that we noted that.

(1) Presentation and Discussion of U.C.'s Budget – FY2009 (cont.):

Mr. Rodi stated this is a program of degrees, we already have a good beginning to a conservation program. We have looked at our radio controlled interruption devices, those are more dealing with efficiency measures to avoid peak loads. A lot of the results that we're seeing now are in our energy audits in homes. I think some of you have had the energy audits done, and we're finding some significant results for homeowners, so that's sort of a win, win for the money. The studies that have been done, have so far, said that spending a dollar for efficiency and conservation is more effective than adding capacity to the system. So that you get a greater return on that offset of avoided costs, but understand that when the costs go down, that means your revenues go down, and you don't necessarily have the trade off. That's part of the reason why I think in the longer term, the kind of rate analysis that has been traditionally done in the industry may be challenged. It's usually been based upon the assets and an entitlement of return on the assets. Where when you have a conservation methodology, the assets are still there, they still have to be maintained but yet the actual flows of the commodities are lessened because of efficiency and conservation but you avoid new costs; so it causes a lot of change in how things are done. One of our weak links is that we have been searching for a conservation energy engineer for eight months. And again, this is part of what you have approved for this budget year. First, there aren't many people that are experienced in this because the DSM, demand side management, approaches that were there in the 70's and early 80's, the people that were experienced in that are no longer around, and these are the same kinds of programs that are being reconstituted again. So we, in fact this morning, we're seeing if we can have a professional service help find one, because if you look in the journals and employment websites there are a lot of these positions being posted and so the demand is very heavy. That becomes critical for us, that position becomes critical for us to manage the conservation and efficiency and measure it to see what the effect is for the investment, and then look at the opposite side, the supply side, as to how we can offset and manage the purchasing end of this. So the two go hand in hand, and we're making progress, but it's very slow.

Commissioner Diesen stated I was thinking in my mind of the tiered structure, that has to be very difficult to do, to make it equitable because if a family has six people and there's one person living next door, you obviously can't do it by household or by...

Mr. Rodi stated and there's also a system of equity that is required by our own resolutions, we can't subsidize from one group to another. So that part of the analysis is what minimum amounts are needed, or at least stipulated, for purposes of kilowatt hours or gallons used in a month for a minimal type approach, and what rate should go with that, and then where are the next break points. So that if you have a very challenging life, and you're trying to balance food, and medicine, and housing, and the utilities costs, those are really important decisions. If you're more fortunate, then you may not pay as much attention to that, but at some point with the costs that are changing very rapidly, there needs to be a tipping point where the economics start to say, well I don't think I'll leave that light on, or I'll change that bulb, I'll finally get around to it. So these are all involved in this discussion.

Commissioner Diesen stated I have one more, in the budget I see \$205,000 for internet. What are our plans along those lines, particularly wireless coming in and doing the city, where are we on that.

Mr. Rodi stated well, there are several parts of it. One of the areas that we will be looking at rates is the internet. We continue to expand our fiber system, I think we're now at Field Street, they're running Smith Street, so that we intend to continue to expand the fiber backbone. First for

(1) Presentation and Discussion of U.C.'s Budget – FY2009 (cont.):

municipal and city operations, we hope to offer that to the city as well, and then we can probably, and the plan is to try to put wireless on the end of the fiber. There's some new technologies that are coming forward that are very powerful, Wimax is one of them. So we're talking instead of ten mile ranges, maybe fifty mile ranges of very strong bandwidth; I think that alone will make a big difference. What's critical competitively in that arena is these are private frequencies, and going back, you know, 15 years ago, the Federal government, the FCC, required most utilities to give up these frequencies and now they become a competitive channel for those who have the frequency and then who have the technology. So that can dramatically change the availability of broadband and the pricing for it; so these are all important aspects of it. From a very localized standpoint, most of our internet traffic is dial up, we have some high speed that is still on the fiber. We've continued to gain whatever efficiencies we can in the internet and we are letting people know that we are here. But until we can deploy the fiber, and again that's another dollar issue, where do you put your dollars, we don't have much opportunity for expansion, but our plan is to do so.

Commissioner Diesen stated okay, and one last comment to Mr. Bilinski, you said new employees were in the budget from day one of the budget, even if they're not coming on until maybe six months later, so that tells me there's a little bit of a cushion there, right.

Mr. Bilinski stated that's correct.

Commissioner Diesen stated good, thank you, and added I'm finished.

Commissioner Zeller inquired about why Local 2088 has not signed the contract.

Mr. Rodi stated we are going to continue to negotiate. We, at this point under State law, are going to follow the requirements of the law, and that's F.S. 477. The steps for us are simply to try to see if there's some middle ground but understand what we presented was a last, best, and final. Essentially what that means is we can talk with some mediators and examine what other opportunities there may be, but at some point in this process, the issue will come before this Commission. And you can judge as to what the respective positions are and then move on from there. We have not, and don't intend to make a public appeal or display, I am responding to your question as opposed to trying to negotiate here. I think Ms. Perez is scheduling another meeting, the Union has requested that we meet, and we will meet, and beyond that then we'll just take a step at a time.

Commissioner Zeller asked how many employees are in the Union.

Mr. Rodi asked Ms. Perez, what do we have, 46 actual paying dues members and about 63 positions, titles.

Ms. Perez stated yes.

Mr. Rodi added and depending with multiples in the positions. He stated part of what we passed on to you is the same thing that we had conveyed, and that was conveyed to you after their vote.

Commissioner Diesen asked has that number increased, the paying number.

(1) Presentation and Discussion of U.C.'s Budget – FY2009 (cont.):

Mr. Rodi answered yes, it has and during tough times, for those that aren't familiar, the employees have the option as to whether or not they contribute dues even though they may be represented.

Commissioner Diesen interjected as allowed for in the state of Florida.

Commissioner Zeller stated as I scanned through, I noticed we were down about 11 employees also.

Mr. Rodi stated yes. We have in fact a few employees less than we were last year actually, and as I have said if we need something, we'll go after it. If we find that we have a way to defer it or maintain the same level of service in the things we're doing, that's been our approach. So whether it's a capital project, employees, or O&M expenses, it's all been the same approach. I know that staff's been very patient with me, I ask a lot of questions about who, what, where, why, how often, how much. They have really worked hard to do what they can, and as you do one thing, then you learn something else too; hopefully it's better.

Chairman Allen stated I have a couple of comments I want to make, talking about our rolling stock. In the past it wasn't too unusual to have a 20 year old truck. You look at safety, and I'm sure you're probably doing some kind of cost monitoring per vehicle as to what you're putting into that vehicle, and a lot of times that drives that cost whether you need to replace it, rather than pour a lot into that investment. So the big issue is we maintain safe equipment and provide safety for our employees as they operate those pieces of equipment. Looking at the proposed budget, and I shared with Ms. Klinkenberg a little bit on the five year projection, with the flat lining, and hopefully with tools in the future we can add to our system, which will give us a better handle that we can actually project some real time costing. My concern is when I look, and knowing that energy costs are going up, and I see that on the electric side revenues are projected to drop, on the revenues side, and you look and see increases on operating costs going up. I'm not trying to micro-manage anybody, but as I look at different things and look and see the kilowatt hour and megawatt hour drop around 4% year to date, and then you look at your actual costs are 20% above what they were a year ago. Those are some real concerns and I think it behooves us to understand that we be diligent in understanding and dispatching economically. I think maybe we don't understand, or if you haven't looked at it and think about those things, this area of our budget is the largest area, this purchased power, and it concerns me when I see 20% increases and you see the energy consumption or projections, your actuals toward your projections down 4%. I think that really needs to be, to take a close look at, what we're doing on a monthly basis and be able to look outward to dispatch and maximize. It's pretty easy to get complacent and when you look at dollars on a total and you say well it's only 1%, but what's 1% of a million. And then the other thing is you look at those blocks on an ongoing basis, month by month, day by day, or week by week, and strive to maximize on those dollars because one month, and add 12 more months of that at 1%, it can be a fairly good impact. That was some of my main concerns as we move forward.

Chairman Allen stated the other thing is the Commission, over the last few years, has been striving to provide a better employment benefit and the health care that is there. It's important for us to grasp a hold, and for our employees to understand, what that benefit is, and it's very substantial. When there are a lot of companies, right now, that are cutting back on that benefit, and when you look at and evaluate your total, what you're looking at as an employee and what is taking place here, and the Commission striving to have top notch employees and have the benefit for them; it's important to know and understand that benefit.

(1) Presentation and Discussion of U.C.'s Budget – FY2009 (cont.):

Mr. Rodi then stated he would like to provide some additional information that he thought might be helpful. Part of what we are developing, and again making progress with, are better tools to understand how to manage our dollars and information. Something we could not have done last year, but we're able to do this year, is Ms. Klinkenberg and I were talking about actual costs. So for the months that are past, you know what the actual is. Well oftentimes, you can just do a straight line mark up and if you have six months, just double it. Then say okay, well if it holds as it is right now, then your forecasts for the year are based off of those actuals. But what we know is that the actual amounts vary a great deal, for example, we have not seen the heavy load periods for this year. So I asked and with our new system, we were able to take the actuals and then add the budgeted amounts that were there, and sometimes the budgeted amounts are a little bit higher as people try to forecast what is going on. But it's very interesting that the straight line interpretation of actuals, when we use the system to put the forecast for what we think is going to happen with the remaining six months, really dramatically changes what the actuals could be. We're also starting to incorporate all of our projects, all of our projects, with great thanks to accounting and engineering for putting these into the system. Now we're able to do forecasts based upon what percentage of the project is done, what commitment has been made, what outstanding obligations, etc. There are tools now that we're just beginning to work with and the most critical of which coming forward is the new customer system. Part of what we have not been able to do is do analyses of customer consumption patterns. We will be able, I think with the new customer system, to understand their needs better, and that's even in addition to credit card payments which has been a long standing issue. But it starts to allow us to understand better what's happening, it's just like changing the reporting on financials so that we have more current information. We're trying to work toward a real time report so that if the information is in the system, then we're able to get a snapshot and have a much better view, rather than being two months behind or three months behind in actuals.

Mr. Rodi stated so these are the kinds of tools, and likewise for purposes of understanding how work is actually done. Part of the driver here is mapping the process, the business process, and there's been a great deal of work done so that the computer system reflects more accurately how the work is done. So from that we may be able to determine leverage points, determine right sizes for crews, etc. There are a lot of opportunities, but those are the kinds of tools that we need. And then, I don't know if you noticed, but we have deferred any kind of an incentive comp program. The reason why we have done that is the first thing we're trying to do better with is the evaluation of all of us as employees. What are the goals, what are the objectives, are we getting it done, what's right, what's wrong; for the purpose of developing the employees. Once we're evaluating properly and we have good benchmarks and measures that are coming from this new accounting system, then we can offer a win win. So that if we are able to perform a lot better, then the employees can share in that, and it will be based upon real things. So that's the kind of activity that's going on and it then drives our succession planning system. The program that I had explained here a couple of months ago, we're actually implementing those in our competencies and what the values are, and this is slowly moving forward within the organization; so that I think is important.

Mr. Rodi then stated I wanted to comment on Commissioner Allen's suggestions about paying more attention to the buys and sells. I know that Mr. Beyrle and I have had several conversations, he's working with the dispatchers, because it is a critical area for us now. In January coming, in 2009, not only will we have our Progress Energy contract that we hope to load up and take advantage of, but there's a broker system that you had approved that we join for a modest investment. That broker system will also provide for us opportunities that we may not have been aware of because you just didn't hear about it. So I think there are some ongoing improvements but the fundamental

need, especially with rapidly increasing fuel costs, is to really stay on top of that and I think the dispatchers have that message.

(1) Presentation and Discussion of U.C.'s Budget – FY2009 (cont.):

Commissioner Diesen stated and a comment on the personnel thing, the less subjective and the more objective, the better it is for everyone.

Mr. Rodi stated absolutely.

Commissioner Diesen stated somehow that has to get out of the system and we're moving in that direction.

Mr. Rodi stated yes, we are, and for some employees that's very difficult because they had been used to managing by personality. Part of what you don't want, a mean spirited employee, but then again, you need to be producing and be able to show that you're improving yourself in each step that you take; those kind of quantifiable metrics and that's what we're doing.

Commissioner Diesen stated and education of the employee, what's going to be measured and what is measured, and that it's consistently done.

Mr. Rodi stated yes, and we are recording all of the training, and there is an extensive amount that we're doing now that lends support to that.

Commissioner Diesen stated good, thank you.

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

There being none, Mr. Rodi confirmed and asked if there was anything else, and then asked the Commission if they wanted to entertain any questions from the public.

Commissioner Diesen stated before you do that, I guess there is one other thing. Just kind of bring us up to date on where we are with generation and one update on that.

Mr. Rodi stated we have at least two viable R&D projects, and we have a third that may become viable depending upon how things turn out. It's very difficult in the market right now for even generation to come on line, and with our size, we're not first in line. Both projects that are looking to be very viable will be very competitive from an operating cost standpoint and I think they're very important. One is exceptionally different than any kind of generation technology that's out there today. It promises to provide environmentally clean energy, it is flexible from a standpoint of its products, and specifically, it can provide hydrogen which can be used as a fuel or it can provide a liquid fuel that can be substituted for gasoline, as an example, and the technology can use just about any kind of carbonaceous fuel source; so that's tremendous flexibility.

Mr. Rodi stated the other is solar based. It has a technology component that can process water much better than a membrane system so that with a deep well we can produce very efficiently potable water sources. The difficulty oftentimes with the process of taking a water source that is in need of processing is what do you do with the byproduct. The interesting thing about these two technologies is they support each other. The one will take the byproduct and use it as part of its process and another byproduct from the other will support, so that they begin to leverage each other.

(1) Presentation and Discussion of U.C.'s Budget – FY2009 (cont.):

The first R&D project is reaching the point where we're trying to determine the business case for it, who does what. One of the initiatives that we're working with is to try to have a manufacturing facility end up in the area. We have been able to convince them to look seriously at this area, so that's a positive thing. I can't stress enough, having done so many of these economic development R&D projects, they're not effective until they're actually running, but they both have tremendous promise.

Mr. Rodi stated we have one other that's out there, and we don't know how that will turn out, but there's progress being made. We've not received any formal information with that one, as far as a formal proposal in any way.

Commissioner Diesen stated I noticed, in a recent article in one of the journals that I read daily, that Florida Atlantic is moving ahead with their use of the Gulf Stream. Of course they're in the ideal place only being fifteen miles off shore there.

Mr. Rodi stated the turbines that are to be used for that project are actually being tested in Scandinavia. I thought they were actually going to do a test, which is important because I don't, obviously an opinion, think that there's enough known about the Gulf Stream with regard to a turbine sitting in it and what it may or may not do. But that has great promise for energy sources, just like there are new technologies with solar that are using concentrators. There's a silicon valley group that says within two years they will have these new solar thin film technologies and with the concentrators they think they can be very competitive with coal prices on an operating basis. IBM came out with one too here recently. So this whole arena of change with regard to renewables is moving quickly in its development, but there's nothing tangible right now to put on the ground, and that's what's causing a great deal of the gap. The 20% renewable requirements and the reality of finding 20%, and what counts and what doesn't count. This is all part of what this engineer's going to wrestle with, along with others, and we hope to be able to bring some more of these more positive things forward here soon.

Commissioner Diesen thanked Mr. Rodi for his comments.

Chairman Allen then asked if there were any other questions, there being none he moved on to the next item on the agenda.

(9) Possible Other Business – Time for Commissioners:

Commissioner Hall stated just a reminder, I won't be here Monday night, I'll be out of town.

Chairman Allen stated okay, do we want to entertain a motion to adjourn.

Commissioner Zeller stated so move.

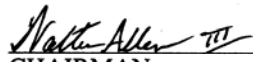
Commissioner Hall interjected do we want to hear anything from the public.

Chairman Allen then asked if anybody in the public had anything to say. There was no public participation.

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

There being no further business to come before the Commission, Chairman Allen stated we have a motion to adjourn (Commissioner Zeller) and then a couple of Commissioners simultaneously seconded. Chairman Allen closed the Workshop Meeting at 11:02 a.m.

APPROVED:

  
CHAIRMAN

ATTEST:

  
SECRETARY-TREASURER

These minutes were formally approved by the Utilities Commission at their June 16, 2008 meeting.